HOW TO MAKE MONEY IN REAL ESTATE

STANLEY L. McMICHAEL

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HOW TO MAKE MONEY IN REAL ESTATE

By
Stanley L. McMichael
Realtor, Investor and Operator

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Cleveland, Ohio

ENDORSEMENT

"How To Make Money In Real Estate," written and published by Stanley L. McMichael, of Cleveland, adds another interesting volume to the growing library of real estate literature, which is being built up.

The book is full of shrewd observations and information concerning the process of investing money in real estate, carefully and well. There is a lot of splendid material in this book, and much of it is new.

Several of the chapters are the simplest, clearest, and best exposition of the subjects treated that I have ever seen.

It is an exceedingly interesting publication, and a notable addition to real estate literature. It will interest not only real estate men, but that portion of the public which has money to invest in real estate.

HERBERT U. NELSON, Secretary,
NATIONAL ASSOCIATION OF REAL ESTATE BOARDS.

Chicago, Ill.
Sept. 4, 1924.

FOREWORD

This volume is designed to convey in clear, non technical language some of the many reasons why real estate is the best investment, and how money can be made in buying and selling it.

Many successful investors have made fortunes in real estate only after having suffered unpleasant experiences in encountering pitfalls which a little practical advice might have warned them to avoid.

This book's purpose is to guide the investor in real estate so that he may benefit from the experience of others in making profits, and avoiding loss and annoyance through unprofitable transactions.

It is presented from the viewpoint of an investor, operator, and broker, who has had practical experience in all three branches of the business.

Grateful acknowledgment is tendered by the author to several who have extended valuable assistance in the preparation of some of the chapters. Among these are Paul E. Gleason, real estate broker and attorney; E. B. Southwick, chief escrow officer of The Guarantee Title & Trust Co. of Cleveland; C. O. Ranson, insurance broker; Robert F. Bingham, attorney; Elmore L. Andrews, attorney; Charles C. White, title expert for The Land Title Abstract & Trust Co. of Cleveland; Herbert U. Nelson, secretary of The National Association of Real Estate Boards, who offered useful suggestions as to the scope and character of the book, and A. W. Newman who suggested to the author the idea of writing a book on real estate for the layman.

If this little volume brings to the reader as much satisfaction as its preparation did to the writer, it will amply serve its purpose.

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How to Make Money in Real Estate

CHAPTER 1

HOW TO MAKE MONEY IN REAL ESTATE

Real estate the foundation of human happiness and prosperity—Land the basis of wealth and imperishable—Every one pays for privilege of using it—It cannot be manufactured at will—All land is for sale at a price—As a commodity for trading it has a universal appeal—Ownership of land is satisfying—Stocks and bonds usually have their underlying values based on real estate—As man has become civilized he has improved his methods for handling real estate—Twelve reasons why money is made in real estate.

Real estate is the great foundation upon which human happiness and prosperity rest.

Everyone uses it in some form or other, and pays tribute to its possessor. Whether one is a guest at a hotel, lives in a rooming house, or occupies a palatial suite in a splendid apartment house; whether he conducts a small grocery store, or a great business emporium, or manufacturing establishment, he pays tribute directly to an owner of land. If he possesses it himself, he considers the use of the property an offset for rent he otherwise would pay an owner. If merely a tenant, he pays a satisfactory investment return to the owner, plus a proper amount for the taxes, and general upkeep.

So important is real estate that everyone is constantly affected by it, and pays a definite sum each year in return for the mere privilege of existing upon it.

Land is the basis of all wealth.

Whether it be a farm, a home, a commercial enterprise such as a department store, an industrial activity such as a great manufacturing plant, or a powerful railroad spanning the country, a very large part of the investment involved is always real estate.

Land is imperishable. There is a fixed quantity of it, and as towns develop into cities, there comes an insistent demand for strategic sites for certain lines of retail business. As tenants follow one after another, they frequently demonstrate their ability to pay an ever increasing toll in the form of rent.

Like no other commodity, real estate cannot be manufactured at will. All the usable land in the world is for sale, and everyone in the world is considered a potential purchaser. Even in new, undeveloped sections of the world, where land may be secured for its mere settlement, a heavy price is paid in breaking up a wilderness into a condition where it becomes habitable for human beings, the building of highways, and the creation of necessary business centers.

The trading instinct of humanity has perhaps exercised itself to its greatest degree in connection with the buying and selling of real estate, greater, in fact, than with any other commodity. From the dawn of the ages men have been acquiring land, renting and selling it to their fellow men. Countless fortunes have been built up on the bartering in real estate, or in the revenues derived from it. More profit in the aggregate has been realized from this form of trading than in any other branch of so-called business activity.

Kings have waged bitter wars, and waxed fat from the new territories they have forcibly annexed. Men for centuries have succumbed to the lure of accumulating lands, have fought, bled, and died for the privilege of leaving their dependents real estate in some form or other. Who can point to any other thing which man has coveted, has fought for so savagely, or worked for so zealously as the possession of real estate?

Ownership of land offers a satisfaction which cannot be equaled by any other form of investment. It fulfills the purposes of the tenant who wants a place in which to reside while he employs himself elsewhere. The average man's strongest instinct is to create a home for his wife and family, furnishing them with a rooftree, where, indeed, he may be king. To the investor who has surplus funds, usually representing his accumulated labor, which he desires to carefully invest so that they will increase, real estate always has been and always will be the

favorite medium of expression. Its ownership, if it be carefully and intelligently acquired, and properly managed, offers the finest investment that any man has as yet devised.

Practically all stocks and bonds, and other forms of securities which are traded in on an investment basis, have their chief value represented in the real estate owned and controlled by the companies on which the stocks and bonds have been issued. Where would the bonds of the world's great railroads be without their realty holdings? Where would the securities of the great manufacturing enterprises be without their plants? Where would oil wells be drilled, minerals mined, crops raised, and food produced, if land were unobtainable, or could not be rented?

Why, through the ages which reach back into prehistoric times, has money been made in real estate? Linked with real estate, its development and utilization, is the world's finest story of human progress. Next to man's instinct for the perpetuation of the race, it has been his one great ruling impulse, until today it has been developed to the point that there rests deep rooted in the breast of almost every man a strong desire to own a piece of land. It is not a selfish instinct, nor can it be suppressed. With such an urge is it surprising that bartering in land and its improvements has always been one of the world's chief sources of gain?

As man rose in the scale of human intelligence, the instinct became stronger, for he realized the inherent value of land, and what can be done with it. He struggled to possess the choicest locations where he could conduct the most profitable business, or rent the land to the person or persons best enabled to pay the highest rent.

In olden days man took forcible possession of land. With his club he went out and slew a neighbor to gain control of a particularly favored spot. Gradually law and order came to prevail, and more decorous methods were adopted, and land was transferred by more or less legal means. Even then kings and emperors cast greedy eyes upon great areas owned or controlled by their neighbors, and barbarous wars resulted. Even today this lure is not absent when wars are provoked, and

countless legions fall, martyrs to the ancient desire to control and rule more territory.

Today, in America at least, ownership of land is not associated with loot and pillage. The buying, operating, and selling of real estate for profit has become a respected, well organized and scientific business, engaged in by men governed by high ethical codes, rigidly enforced. Several hundred thousand men in America devote their entire time to the business, many of whom are realtors, members of nearly 600 boards, which constitute the roll of the National Association of Real Estate Boards.

Money is made in real estate because:

1—It represents enduring value.

2—Its need is imperative.

3—It lends itself to ready purchase and resale.

4—Its use commands an adequate investment return.

5—Its ownership represents safety in possession. While other investments are subject to personal control, and the application of varying degrees of skill as demonstrated by their administration, land always remains intact, safe, and can never be dissipated to any great degree. Even gross mismanagement cannot erase values in land.

6—Ownership excites and maintains human interest. A man will work harder and strive longer to acquire and hold real estate than any other possession. Next to protecting his wife and children, he will fight harder to save it from harm, or loss.

7—It satisfies the natural craving for possessing a spot he can call his own. One of the happiest moments in many a man's life comes on the day he can point to a piece of real estate and say: "This is my very own!"

8—Growth in population creates a demand for possession for business purposes, where large rentals are sometimes obtained.

9—Purchase and sale of real estate are surrounded by a multitude of laws which regard its possession as almost sacred. Once obtained, real estate cannot be wrung from one's possession, provided the owner observes the usual obligations which possession entails.

10—It serves a greater variety of purposes than any other commodity, and therefore offers a larger field in which it may be sold at a profit.

11—It is the great impelling force that has actuated the advancement of the race from a state of savagery to one of industrious, peace loving contentment.

12—By its personal use, or its development for use by others, real estate offers an unequaled opportunity for human service.

CHAPTER 2

WHY REAL ESTATE IS THE BEST INVESTMENT

Many made independently rich through real estate—Ten excellent reasons why it is a good investment—A good place to use surplus funds—Lack of knowledge has kept many from this lucrative field—What John Jacob Astor did in building up a great fortune—Bonds versus real estate—Real estate not only provides an income, but earns an increment—What constitutes a good investment—Why it is difficult to buy land in a central business district—How the population of American cities has grown—Nowhere are real estate investment opportunities greater than right here in America.

More men in America have become independently rich through their investments in real estate than through any other method of attaining wealth.

Many a man has retired from business life with a modest fortune, and, seeking to invest it safely, his attention has naturally been attracted to real estate. Almost in spite of himself his investments have grown tremendously in value until he has died a rich man. Every city and town has outstanding examples of this kind, and almost everyone knows of fortunes which have quietly but surely piled up in this way.

Real estate is a good investment for the following reasons:

1—It is surrounded with substantial elements of safety.

2—It cannot be easily dissipated.

3—If properly selected, it goes on reaping increment year after year, despite changing business conditions.

4—Its owner is not subjected to the element of questionable management by others, as in the case of industrial or business enterprises, and stocks issued by them.

5—The book value of real estate purchased at par continues just the same, or increases from year to year, and is not subject to the fluctuations of business conditions, as are stocks and bonds.

6—Real estate does not have to be organized or pay underwriting and other charges. Income, from properly chosen real estate, will begin at once and continue unabated, paying a steady return in addition to the natural increase in value which comes to most property.

7—Real estate is seldom seriously affected by business booms or depressions. It may remain static for a time, but it seldom, if ever, recedes in value, and if it does decrease, the percentage is so small that it soon gains again when normal conditions prevail.

8—That real estate is not always a liquid asset is one of its most commendable features. This characteristic has saved many a person from losing money by investing in "get rich quick" schemes, which later proved utter failures. It is doubtful, indeed, if real estate is less liquid than stocks and bonds, which must be offered for sudden sale. Such securities usually have to be sold considerably under par for a quick realization of funds.

9—When you invest in real estate, you may go and look at it, and see that it is there. There is a sense of possession implied that attaches to no other form of investment.

10—Real estate, being limited in amount, attaches to itself monopolistic features, which, capitalized into business use, invariably pay satisfactory profits to its owner.

The safe and profitable investment of surplus funds always has been one of the puzzling problems of the business men of this country. Because of the ease with which stocks and bonds may be purchased in any denomination, much investing has taken this form. Compelled to blindly accept every statement put out by an industrial or commercial concern, business men have gone on from year to year pouring money into such securities, receiving a nominal rate of interest in enterprises, which sometimes had but questionable merit.

Lack of knowledge of how to select and manage real estate has kept great masses of investment funds out of the real estate market, where the largest profits always have been made. With

the organizing and standardizing of the real estate business through the medium of real estate boards, there has come into existence within the past decade a new set of conditions. Trained realtors now stand ready to render service in assisting those who are attracted to realty investments. Basic principles have been developed, and fundamental methods of acquiring safe and profitable investments have been placed on a new plane.

John Jacob Astor, when he went to New York in 1782, found a little city of 25,000 inhabitants. He cautiously began setting aside his surplus income for investments in real estate. He died leaving an estate worth $20,000,000. His son, William B. Astor, following in his father's footsteps, adding tract after tract of real estate to the family credit increasing it until it was worth $45,000,000. John Jacob Astor, III, continued the family policy, and died leaving $75,000,000. The Astor estate, and those who built it up, believed in buying property, and never selling it. As an example of the way Astor real estate grew in volume and value it is related that 150 acres of land, were purchased near the Harlem river High bridge in 1883 for $300,000. A few years later, twenty acres of this land sold for $300,000, and $3,000,000 was refused for the remainder!

Alva Bradley, a lake captain, living in Cleveland, amassed a fortune leaving $450,000 when he passed away. He stipulated that the estate should be held intact for twenty years. When it was divided among his heirs it had grown to $4,070,000. The heirs continued their real estate investments, and the estate has increased tremendously in value through additions, successful management, and the natural increase which has come with the years.

United States government bonds, regarded by many as the most secure form of investment, pay from four to five per cent in interest return, but with small possibility of increasing in value. Bonds of large corporations such as railroads, illuminating, power, telephone and telegraph companies, oil refining concerns, and similar large enterprises, pay from five to seven per cent in return, but fluctuate with the markets to such a degree that one is never certain as to what the next dividend report will be. Stocks issued by industrial and commercial enterprises are considerably less stable than bonds, and are subject to all

of the sins of commission and omission of management, so that they are constantly falling and rising, or disappearing altogether as the stock ticker tape unwinds its story.

Real estate, it must be remembered, has two definite elements of gain. It not only pays an income, if the property is improved, but it also benefits by the steady increment in value which comes with growth in population. It is said that every time a child is born in a city $1,000 in value is added to the real estate duplicate of that city.

Mortgages on real estate, the best investment next to actual possession of real estate itself, pay from six to seven per cent consistently, and with practically no loss in principal ever reported. Real estate, in most cases, should pay from six to ten per cent on the investment, not counting the steady increase in value that is nearly always apparent.

The best form of investment real estate usually is to be found in improved business property, and fees subject to long term leases. Central business property makes the most money for the real estate investor, if he has the necessary amount of capital to enter that field. Rental receipts totaling into the hundreds of millions are flowing into the pockets of central property owners throughout the country. No other source of revenue can compare with this great inflow of wealth.

What constitutes a good investment? Any piece of real estate which has a proven net investment return of at least six per cent, and situated in a locality where growth seems reasonably certain, will, in the course of a few years, return more real income to its owner than any other form of investment, considering its elements of safety.

It is difficult to buy property in the downtown business district of any live city except at a price which is in advance of the market value. This is due to the confidence and satisfaction of owners who will not consent to part with it, except for a marked premium. In many instances, such real estate cannot be bought at any price, so well satisfied are the owners to hold it for future use and increase in value. There is a constant effort by investors to get possession of such property which nearly always furnishes a splendid return when one considers the original price paid for it.

The trend of population towards the urban centers of the country makes cities veritable gold mines when it comes to real estate. In 1800, less than four per cent of the people in the United States lived in cities. In 1890, thirty-three per cent had gravitated to cities, while the census of 1920 showed that the pendulum was still swing cityward, and for the first time in American history a greater proportion of the population lived in cities and towns than in the open country, the proportion being fifty-one per cent in cities, and forty-nine per cent in rural districts. The furnishing of housing accommodations, and the attendant commercial and industrial activities create a tremendous volume of manufacturing, wholesale, and retail trade, conducted by business men and merchants who demand adequate accommodations for which they are willing to pay substantial rentals for such as meet their requirements.

Income is the chief basis on which investment real estate is held by those who possess it. Due to the insistent demand for new accommodations in cities, the supply of improved property is seldom equal to the demand. When the demand is satisfied, this condition soon becomes apparent, and development of new properties slows down, thus maintaining an earning level, which usually is satisfactory to the owner of renting property. Demand again soon exceeds the supply, rent levels increase, and new development starts again. In this constant cycle of growth is the secret of real estate activity and investment.

It is certainly true that all real estate is not always advancing in value but it is equally true that real estate is less subject to backward movements than other forms of investment. Real estate may remain stationary in value for a time, but it seldom slips back, and the principal of one's investment is safe and secure. The secret of profitable real estate investment lies in the application of knowledge of conditions to the buying of specific properties. This knowledge can be acquired only through intensive study, and to those who are willing to apply themselves come golden rewards.

In no other country in the world does real estate offer as attractive an investment as in the United States. In European and other foreign countries, cities do not grow as rapidly as in

America. Cities there develop more slowly, as they do not enjoy the immigration that comes to this country. A much larger proportion of the people live in the country where they are less dependent upon the cities than here. Modern inventions have transformed American cities into havens which constantly attract people from the country. Moving picture shows, theaters, parks, amusement resorts, brightly lighted thoroughfares, comfortable homes and apartment houses, attractive workshops and offices, draw the country's inhabitants cityward, creating new markets, and requiring new property accommodations. With labor deserting the farms, machinery is slowly but certainly taking its place, and it is not probable that the time again will come when more people will live on the farms than reside in the towns and cities of the United States.

Uncle Sam always has been a consistent believer in investing in real estate. A few years ago he bought the Philippine Islands for $20,000,000. Today they are worth many times that amount. In 1867, he acquired the great territory of Alaska for $7,200,000, a mere fraction of what it has produced since that time, and what it is worth today. In 1850, he bought the immense territory of Texas for $10,000,000. There are many cities in Texas today whose tax duplicates are many times that sum. In 1819, he acquired the territory of Florida for $6,500,000. A couple of hotel sites in Miami today are worth that sum. His most profitable venture into real estate, however, was in 1803, when he bought the immense territory extending from the Mississippi River to the Rocky Mountains, and from the Gulf of Mexico to Canada, known as the Louisiana Purchase, for the trifling sum of $15,000,000. No one knows how many billions of dollars it is worth today. Those were all investments, and ones which perhaps paid the most handsome returns in the world's history, when considered as individual realty deals.

It is frequently asserted that the day of accumulating great fortunes has come to an end. Witness the feat performed by Henry Ford, manufacturer of the humble flivver, becoming the richest man in the world. Just as certainly as men have amassed great wealth by buying, developing, and holding real estate in the past, is history to repeat itself in every American town

and city. As this great country continues to grow, the same elements will prevail that made the Astors one of the wealthiest families in America by constantly investing accumulated profits in real estate. It needs but the most casual investigation to prove this to be true in almost every community, despite its present size or ratio of growth.

Real estate, then, is the best investment for three very practical reasons:

1—It affords the soundest security.

2—It furnishes an ample income if properly improved.

3—It enhances steadily in value, if properly selected.

CHAPTER 3

HOW YOU CAN MAKE MONEY IN REAL ESTATE

Study the subject by reading books—Experience sometimes a harsh but useful teacher—Confer with those who know the problems to which you seek answers—Ten things a successful operator will tell you—The inexperienced investor should secure the assistance of a competent realtor—Definition of a realtor—How the realtor can help you—No deal a good one unless fair to both parties—Real estate brokers in selling their own property often deal through other brokers—Element of time must enter into a real estate transaction to produce a profit—Ten reasons why you can make money by buying and selling real estate.

It took man thousands of years to develop to his present intellectual and physical status.

Slowly, through the centuries, the evolution occurred. With it came development of the mental powers of human beings. History descended by legends passed from generation to generation by word of mouth. Writing on tablets of stone was superseded by the use of crude pens and parchments. Then came one of man's greatest boons—printing. By means of modern educational methods, and through the medium of books, one is now able to learn more in a month than a man living in the tenth century could ordinarily have absorbed in a lifetime. Read every available book on real estate.

Experience, of course, is the great teacher. Experience, however, is often a slow and harsh instructor. Today the seeker after information endeavors to learn by the experience of others which he adapts to his particular needs and environment. That there is an unlimited fund of experience from which to draw concerning the problem of making money in real estate is undeniable.

In almost every community there is some one who has made a conspicuous success in this field of activity, and if it is possible to consult with such a person many valuable lessons as to ways and means of investment in real estate will be learned. He will tell of the careful analysis which is made of every property purchased. Such a successful operator will point out, for instance, some of the following salient facts:

1—That land increases in value with use, while buildings decrease in value.

2—That the presence of population has a direct relation to the demand for land, and that as population centers in a town or city the value of all land increases.

3—That the more accessible land becomes through the presence of highways, railways, and avenues of transportation, the greater the price that may be demanded and received for it.

4—That in towns and cities the more public service facilities which are afforded, the more readily a profit on land can be secured.

5—That neighborhoods have character, whether used for residential or business purposes, and that the higher the grade of use to which land is put, the higher the price obtainable for it.

6—That land unlimited in amount as to quantity is distinctly limited as to its worth.

7—That land having unusual monopolistic peculiarities commands a greater price, and is more readily sold at a profit.

8—That the greatest increment is enjoyed by land which is adequately improved for use by its owners.

9—That there is a constant and steady shifting in the use of real estate, particularly in growing cities. A fine home district somtimes degenerates into a neighborhood of boarding houses, then into a cheap business or manufacturing section. On main arteries extending out to the circumference of a community, there develops a constantly growing line of business establishments, where land finds its most profitable use.

10—That the successful operator learns when to sell equally as well as when to buy real estate.

These and many other fundamentals, to be touched on hereafter, will be learned from the experienced real estate investor, if he chooses to reveal the methods whereby he operates. Learning these lessons, which have been assimilated through

years of actual contact with realty problems, will save the student of real estate many costly experiments.

Perhaps in no business in the world is there need of more careful and painstaking study than in the buying and selling of real estate. Pitfalls exist for the unwary, and discouragement comes with the realization that the business embraces such a wide field, and needs constant and unremitting study.

Printed matter on every subject relating to land and its development should be carefully read, so that a foundation may be laid for future operations. Contents of books, magazine articles, lectures, and addresses may well be absorbed by the man who would make a success in this profitable field of investment.

Having learned a few of the fundamentals, others will be revealed from experience and observation from time to time. Mistakes will be made and lessons learned. Once analyzed, the conditions responsible for the mistakes should be carefully avoided. The man who fails or refuses to benefit through the mistakes of his own experience, or of others, seldom evidences enough genius to continue long as a successful real estate operator and investor.

The best way for the inexperienced to buy and sell real estate is through the acceptance of the services and counsel of one who makes such a business his life's work. When you are ill you consult a physician. When in business trouble, you consult a competent lawyer in whom you have confidence. When spiritual things disturb you, you seek the solace and peace to be found in counseling with a spiritual advisor, who, through long years of application, has learned to understand and apply the underlying principles of relationship between God and man. When you desire to engage in a business transaction involving the acquiring or disposing of real estate, what could be more sensible than to seek the guiding mind of a competent realtor?

A realtor is a member of a real estate board which is associated with The National Association of Real Estate Boards. His membership in that body vouchsafes for him a standing in his community. He is to the real estate business what the ordained minister is to the church, or the qualified lawyer is to a bar association.

Successful operators in cities all over America make a practice of dealing through realtors in acquiring or selling their holdings. It stands to reason that a man who has properly qualified himself through years of study and experience can assist in many ways which will more than repay the usual commissions involved for service.

What is of greater importance, however, is that the operator identifies himself with a man who assumes the relationship of agent or broker between contracting parties. In most instances this is of definite value, for when the buyer and seller come together directly there are many opportunities for disagreement which an agent in his negotiations may skillfully avoid. The realtor can act as a referee and peacemaker in many controversies which arise in even the simplest transactions.

No deal is a good deal unless it is fair to both parties. This element of fairness the agent is able to inject into the transaction, smoothing over the difficulties which sometimes threaten the ending of negotiations and the successful conclusion of a deal which might otherwise be wrecked on the rocks of useless arguments and unnecessary dissension.

Seasoned judgment on the part of an operator will do more to avoid difficulties in real estate operations than any other element, but this comes only after long years of studious effort. By taking another into partnership to direct the course of negotiations the element of risk will be greatly reduced.

It is significant that many men who have had long experience as brokers invariably operate through other realtors when buying or selling on their own account. An entirely different status is given the transaction and a relationship established between buyer and seller which is impossible when the contracting parties together directly.

It is interesting to note, furthermore, that the most careful and skillful agents usually try to keep their parties apart until the main conditions of a transfer are decided upon. In many deals contracting parties do not even see each other as they sign, at different times, escrow letters which outline the obligations of the respective sides.

As concerning the element of profit, the buying of real estate is often more important than the act of selling it. A property rightly bought is half sold, if one desires to part with it. It then doubtless contains the elements of speculation and interest which will induce a buyer to pay a profit, feeling satisfied that he is acting wisely. If the property is not acquired with this in mind, and has been taken over without study, and with but scant consideration, the new owner may find that he has an unsalable property on his hands, and that he has defeated the purpose of his investment, that is, of selling it at a fair profit.

Never forget that the element of time must enter into most real estate transactions. One cannot expect to buy today and sell tomorrow at a profit. This sometimes occurs, but it is seldom the case. Time and constantly changing conditions of a favorable character are responsible for that elusive thing called "profit" in real estate transactions. Having this in mind, great care should be taken to understand the fundamental conditions which surround a property before one invests in it.

Some men are considered lucky when they conclude a realty transaction which involves a substantial profit. Occasionally this is true, but more often the so-called "luck" has been inspired by a long and painstaking study of conditions applying to the particular property in question. It has been viewed from all angles and due consideration has been given to many factors before it has been acquired. Then time entered into the equation and at the proper time the property was sold at a substantial advance in price and the reward due to vision and careful consideration came naturally.

Have courage. Faith and confidence in one's own judgment and infinite courage as to the results later to be attained are necessary if you are to be successful in real estate operating. Take every precaution possible before assuming ownership, but once having bought a property face the future with courage, and no matter what happens always feel confident that you have a good property which is worth the money you are asking for it. It sometimes takes real courage to buy real estate when the market is not active, yet that is the time in which to buy. If you wait for an active market before buying,

you will be certain to pay a higher price, and will cut down the possibility of making the profit you otherwise would have realized.

Some of the principal reasons for expecting substantial returns to come from the buying and selling of real estate in cities are:

1—The naturally rapid growth of a new country where towns develop into cities within a short time.

2—The laying of a new hard surfaced roadway, the building of a golf course, the creation of a railroad or interurban line, the discovery of oil or minerals, the building of a new industrial city by some large corporation, the creation of a new harbor or a large irrigation dam often lend to low priced outlying lands great additional value almost overnight. Watch for new improvements on a large scale. They carry profits in their wake.

3—The rerouting of street cars often gives to specific properties greatly increased value by reason of the creation of new transfer points. The extension of street car lines into new far out territories nearly always results in the creation of new business centers where property values increase rapidly.

4—The location of an important industry in a new section of a city brings with it a demand for home sites, to be followed by the inevitable business district.

5—Street widening and street opening activities abound in investment possibilities. Channels of traffic are diverted, and new avenues of retail trade are created.

6—Demand for new store facilities in a business district of a rapidly growing city often results in downtown properties being sold again and again at substantial profits.

7—Districts changing from homes to apartment sites often see substantial increases in value of land. When it is possible to house sixteen families on a lot where one family has normally resided it means that the value of the land if properly located for such utilization is greatly increased.

8—Development of lake, river and ocean front property has been overlooked in many cities. After a community has passed a certain point in population a condition of congestion begins to make itself apparent. If at this time a beautiful water front property, adequately served by a transportation medium, can be developed it can be sold at a substantial profit.

9—Money has been made by keen visioned men who have realized that outlying business neighborhoods can support a moving picture theater, a market, or a dance hall and skating rink, and have proceeded to fill the need at the proper place and time.

10—Real money talks loudly. Often a substantial reduction in prices may be obtained when an entire transaction can be handled on a cash basis. It often is the one big inducement which will draw out the nearest thing to a bargain that the ordinary real estate market affords.

11—Favorable climatic conditions, such as those afforded by Southern California and Florida, properly exploited, draw large numbers of people permanently to such territories. Many thousands of people who are advancing in age, and who are preparing to "retire," seek out such places, invest their money liberally, and create active real estate markets which continue to expand from year to year. Investments in such sections, if carefully investigated to the point where they prove warrantable, often show golden returns.

12—New outlying business centers are fertile fields for investment, especially if on heavily traveled highways leading to other important towns or cities. Surrounded by rapidly expanding home districts, the new business sites thus created are bid up by business men seeking to create new centers of trade.

13—Remember that the time to buy real estate that you may later sell at a profit is when there is a lull in the market. Buy at the low ebb, hold and sell when activity is in full sway.

CHAPTER 4

HOW YOU CAN LOSE MONEY IN REAL ESTATE

"Caution" the watchword—Do not look for so-called "bargains"—Do not deal with irresponsible agents or owners—Do not sign papers if you do not fully know their contents and import—Place your deals in escrow—Weigh all advice carefully—Do not buy property you can't afford to carry, or which has not a clear, marketable title—Do not be oversold—Do not buy without actually seeiing the property you are purchasing—Do not buy land in lotteries—Do not be "high pressured" into a deal—Be careful in buying at real estate auctions—Watch out for easements and other restrictions—Be careful of the type of property you acquire—What to find out about buildings you are buying—Facts to ascertain in buying any property.

"Caution" should be the watchword of the real estate investor, whether of limited or long experience.

Unremitting caution and careful investigation will prevent the acquiring of real estate which may belong in the "cripple" class. Care must be exercised in many ways in examining the merits and demerits of property before a final decision is made to assume resposibility for its ownership.

Time taken to thoroughly analyze a property is always well spent. Do not be "high pressured" into closing a deal. Do not act until you are thoroughly satisfied that it is the property you want, and be sure you are getting the thing you are bargaining for.

In the first place, do not approach the subject of real estate investment from the standpoint of looking for so-called "bargains." There are very few genuine bargains, if the market you are operating in is normal. There may be many properties which may be classed as "good buys," but so-called bargains are very rare. Do not be discouraged if you fail to find properties which offer astonishing returns at low purchase prices. Investigate such offerings just a bit more keenly than usual for there may be something radically wrong with them, and you may become a victim instead of an investor. You cannot get something for nothing in real estate any more than you can in any other field. Be satisfied if the proposition offers reasonably good returns, and then depend upon making your money

through the increase in value over a period of time and the utilization of the property for better and more profitable uses.

Avoid dealing with irresponsible agents. They seek to make a commission, and do not have your interests at heart. Select a responsible realtor to guide you, and use your own good common sense in the examination you make into the merits of any offering. If in doubt, get reliable advice, just as if you were ill or in legal trouble.

Be careful not to knowingly deal with irresponsible owners. They are dangerous to have contact with. If possible, investigate the general character and business dealings of anyone with whom you may not be properly impressed. Through your local realty board, bank, credit association, or friends, you can usually get information concerning anyone of consequence who is trying to sell you real estate. A little time spent in looking into the standing of the persons with whom you are dealing may save serious consequences later on.

Do not sign any paper unless you thoroughly understand its import. Get advice. It is cheap at any price when a substantial deal in real estate is concerned. Be careful when you get your advice that it is not biased. If in grave doubt as to the value of a property for which you are negotiating secure an appraisal from the valuation committee of your local realty board. Signing options, agreements, and similar papers may precipitate you into difficulty if you do not thoroughly understand their import, and may involve expensive litigation with all that such troublesome and distasteful litigation carries with it.

Before paying over any money, except to a thoroughly responsible realtor or bank, insist that the entire deal be placed in escrow to be handled by a referee in whom you have full confidence. The escrow instructions will provide that the real estate firm shall be taken care of in regard to its commission, and that the seller shall be fully compensated as regarding his interest in the transaction. Escrow agencies are now to be found in most cities. They are usually conducted in connection with title companies. If there is none in your community, you can escrow your deal with your banker, who will receive the

purchase price from the buyer, and disburse the funds to the seller after title has been properly passed to the purchaser.

Reputable real estate men welcome escrow transactions. If a real estate dealer balks at escrowing a brokerage deal, consider it a red light signal of danger, and proceed slowly in involving yourself with him. If the deal is the mere purchase of a homesite, and the company is a responsible one, it is usually not necessary to escrow such a deal.

Weigh just as carefully the advice given you by your banker or lawyer as you do anyone else. The banker may desire to sell you bonds or retain your deposit at a low interest rate. The lawyer may wish to earn a fee by revising contracts, or by injecting his own business advice when it is only his legal advice which is sought. Both bankers and lawyers are invaluable in real estate transactions, and for the most part they are unbiased and upright, yet many real estate deals are hopelessly wrecked when bankers and lawyers get out of their proper spheres, and give biased or uncalled for advice. You should make your real estate broker prove every statement he makes. Treat other advisors the same way. Your money is at stake, and you want disinterested advice or none at all.

Do not buy property you cannot afford to carry. "Shoe string speculating" consists of buying a piece of real estate with a small down payment, with the hope that it can be sold quickly at a profit before further payments fall due. It is a dangerous practice, especially if you have not the money to carry the property in the event the anticipated sale does not occur. Many a man has lost his initial stake by buying a property he was not in a financial condition to carry once it had been acquired. Investigate the extent of the obligations you are assuming, and be prepared to carry them through like an honest man. Secure the best terms you can, and make the smallest down payment compatible with good financing, but once having acquired a property be prepared to meet payments of principal and interest until a satisfactory disposition can be made of it.

Never buy property which has not a clear, marketable title. Never buy unless a properly sponsored title has been furnished by a responsible title company or abstractor. After the title has been presented for your examination have it looked over, prefer-

ably by a capable lawyer who understands such matters. It is a matter which a realtor or a banker can usually advise you about, but if the property is one of considerable value have your lawyer check it over, and make his report. This is part of the service offered by high grade escrow departments of title companies and banks, and usually obviates the necessity of a lawyer's opinion.

Do not allow yourself to be oversold. If you have a certain amount of money with which to buy a lot, don't let some "high pressure" type of salesman sell you two lots when you know you cannot afford to own and carry two lots. Do not get loaded up with property you cannot afford to own.

Do not buy real estate without actually seeing it. Beware of the "long distance" deal. If a property is worth owning, it is worth going to look at. Farms in distant states, fruit lands in California or Florida, ocean lots at seaside resorts, cabin sites in cut over timber lands may sound interesting, but don't buy unless you actually see them. Probably you won't buy them at all if you do see them, and will thereby be saved a substantial loss. If a property is not worth the trouble of going to look at, it isn't worth buying.

Don't buy land in lotteries. One favorite plan of "get rich quick" promoters is to select a large tract of practically worthless land, prepare a fine looking map of it after cutting it up into small sites, and then issue tickets which are given away at fairs, picture shows, and other entertainments. A few days later every ticket holder receives an announcement that he has been the miraculous winner of a "free lot" which will cost absolutely nothing but the cost of an abstract and recording papers showing ownership. Charges of from $20 to $75 are made for these services. After the fee is paid, if one even takes the trouble to look at the so-called "bargain," one will usually find the lot is on a barren piece of sea shore, a small tract in a distant cut over timberland, or so far from transportation that it is practically worthless. It is not worth owning, even if it costs nothing. This is just another demonstration that you can't get something for nothing. Avoid lotteries.

Do not be rushed into a deal by the argument "Well, if you don't buy this quickly, somebody else is going to take it."

This is old stuff, and many fall for it, to their chagrin. Better miss one of these "bargains" than lose your money in a venture so questionable in character. Few reputable agents advance such a reason for buying, even though it may actually exist. Be properly warned, if such a warning seems to be given in good faith, but be thoroughly satisfied that you want the property and are going to be satisfied with it before you part with your hard earned money.

Understand what you are going to buy when you attend an auction sale of real estate. Many of these auctions offer "good" buys" in real estate, but before the time the auction is held you should take a trip out to the property, study it, and understand what you are buying. Reputable auctioneers advertise such auctions days in advance and invite investigation. Do not be swept off your feet at such a function, where the stage has been properly set to work upon the gambling instinct which every man possesses to some degree.

Beware of the arguments advanced by some persons when they point to the erection of a new railroad terminal, a park, a new pier, or a large municipal bridge. Only in exceptional cases do such projects permanently increase surrounding property values. Be thoroughly satisfied that the improvement is contemplated, under way, or completed, and is going to be of such a character as to increase the value of the particular property you are invited to purchase. A limited number of businesses may thrive near a terminal; an apartment overlooking a park may prove a profitable investment; certain activities may prosper near a new and important pier, and there may be some advantage in being located near the end of a new bridge, but the number of enterprises which can benefit by proximity to such improvements is usually so limited that a keen analysis of each project should be made before a final commitment.

Watch out for easements of one kind or another which may be attached to land you buy. Somebody may have the right to use part of the property for an alley, a pipeline, wire tower, passage or drive way, or some other purpose which may prevent you from developing the property to its best and fullest use. These easements usually will be revealed in the abstract as they ordinarily must be made matters of record to make them

legally binding. Always inquire as to easements and determine whether an easement, if it is attached to a property, will detract from its value. Many difficulties have arisen over easements, money has been lost, or advancement of property values retarded by their presence. If an easement is of record a sales contract usually will include its acceptance, so it is wise to have a knowledge of such easements before signing a contract to buy a property.

It is not always possible to examine monuments which are set up to determine the exact boundaries of a property, but if such an examination can be made, it is well to do so. Also be sure to see that you actually have delivered to you the property you contract to buy. Mistakes often are made by a salesman pointing out a specific tract of land, and then discovering that another has actually been deeded to you when the deal is closed. Buildings are sometimes erected on wrong lots, and other difficulties ensue so it is wise to know that you actually have delivered to you the particular tract of ground you bargained and paid for. If the property is a valuable one a survey is well worth while.

Determine the utility of a tract of land before you buy it. If it is a hillside, for instance, ascertain what it can be used for. If it is a gully, determine if within a reasonable time enough dirt or refuse can be dumped there to make the land available for some definite use. If marshy land, ascertain whether building foundations can be provided in the event the water is drained from it, or that it can be filled to a proper level.

Be careful about buying small, irregular shaped tracts of land. An acre of land, if it is square and has a street frontage may be put to some profitable use. If it is a "shoe string" extending back hundreds of feet, with a width of only a few feet, there may be doubt concerning its profitable utilization. Very narrow lots in business sections are difficult of development unless linked to adjoining properties. Shallow lots suffer from the same drawback. Land which may not have adequate access to thoroughfares, and which is thereby isolated from general use, may be difficult to sell at a profit.

In buying buildings, the greatest care should be exercised

to know thoroughly the exact structural conditions involved. Inquire as to the following:

1—Is the building properly adapted to the neighborhood and the land on which it stands?

2—Is the building a special service structure for which only permanent use of a specific character will result in the maintenance of its value?

3—Is the building structurally sound?

4—Has it been erected and maintained according to the municipality's building code?

5—If an old building, can its value be amortized over a period of years representing the reasonable actual life and usefulness of the structure?

Be careful in buying property in a neighborhood with which you are not familiar to know whether there are nuisances which may detract from value.

1—If a home, is there a public garage next door?

2—Is your nearest neighbor an undertaker?

3—Do you adjoin a cemetery?

4—Are you next to a school playground where boisterous children may interfere with the enjoyment of your premises?

5—Is there an undesirable factory emitting smoke or gas in your neighborhood?

6—Do you, when the wind is in a certain direction, suffer from odors from stockyards, sewage disposal, chemical, or rendering plants?

It is more unusual to lose money on real estate than to earn a profit, taken all in all, yet there are opportunities to lose money which often may be avoided by careful investigations made before you have definitely committed yourself to take action.

If you lose money, you can usually blame it to your own laxness, unless you are openly swindled, and even then a little consideration might have kept you free from difficulty.

Remember the watchword—"CAUTION"!

CHAPTER 5

TYPES OF INVESTMENTS IN CITY REAL ESTATE

How opportunities are missed—Every city has valuable real estate to acquire—Houses and lots as investments for those having small capital—Remodeling old houses into modern structures—Building and furnishing houses—Two family, double and duplex houses as investments—Four, six, eight suites, and larger types of apartment houses—Co-operative apartment projects—Combination store and flat buildings—Large business structures—Special purpose buildings such as theaters, markets, and amusement enterprises—Most profitable building investments are in central business districts—The time to buy real estate is NOW.

"See that corner lot over there? Fifteen years ago, I could have bought that lot for $6,000. The other day it was sold for $85,000. If I had only bought that land see the money I could have made on it!"

How often have you heard one of your friends or acquaintances wail something like that? Asked why the lot was not acquired, the mourner usually responds that he couldn't see the value in the property at that time, and, anyway, he didn't know the city was going to grow so fast that it would be needed for business purposes.

It is the old, old story. It has happened to nearly everyone. Lack of vision and lack of courage, have permitted countless opportunities to pass by unnoticed, or if noticed, have received only frosty glances, or cynical comments.

Every town, every city in America has investment possibilities in real estate. Real estate men, trained to observe the evidences and possibilities of growth, and to judge the future by the past, hammer at men's doors pleading with them to accept opportunities to make money, but are coldly turned away. Later, when a good deal is made which results in a substantial profit being realized by another, there is consternation or regret that the opportunity was not seized upon at the time the offering was made.

Almost any kind of real estate can be bought and sold at a profit. Some classes of property naturally afford greater profits than others, just as they involve greater investments and greater

obligations in the way of improvements which must follow to make the land most productive.

Perhaps the simplest form of real estate buying is vacant lots in new subdivisions. There are certain times to buy, and certain conditions to be observed, if land so acquired is to be turned at a profit. This is more fully discussed in the succeeding chapter, as it is the first type of investment many persons become interested in, and is the one that perhaps attracts the larger number of individual buyers.

Buying a house for other than personal use, may often result in the making of a good profit. Remembering that land increases in value with age, and that buildings suffer depreciation, care must be exercised in seeing that conditions exist that will permit of such a property being sold profitably. Sometimes an old home standing on a street which is gradually coming into use for business purposes can be purchased, rented for rooming house or semi-business purpose for several years, then torn down and replaced by a business structure. In buying such a house, remember that the investment is substantially in the land itself, and that little value attaches to such a building. Its value, in other words, is absorbed in the cost of the land. Owners of such properties often demand full land value, and furthermore seek a replacement value, less depreciation, for the building itself. This, of course, cannot be considered as such a building is rapidly nearing the point where it is becoming inadequate to the location. Residences on business streets, which would cost many thousands of dollars to build, or would be worth large sums if located in a proper environment, are often worthless when the price asked for the land is taken into consideration.

The same principle applies to houses where a neighborhood is slowly changing from a single residential district to an apartment section. Such houses may be useful for occupancy for several years, but when the full value of land for apartment purposes is realized, the house itself cannot be given much value. Many appraisers arbitrarily give a value to such buildings of an amount equal to one year's estimated or actual rental.

A profitable business is engaged in in many cities by persons buying old houses which are structurally sound, remodeling and modernizing them, installing new bathrooms and kitchen equip-

ment, and then reselling at an advanced price. This kind of business can be best engaged in by a carpenter or someone who understands building operations, or who has such a partner operating with him.

In many places, particularly in California, men and women buy lots, erect artistic homes, furnish and live in them for a time, then sell them completely furnished, moving on to another house which they have about completed ready for occupancy. They constantly have a place in which to live, and manage to make a regular profit if the market is active. If the house does not sell, it at least provides a home in which to live, or which may be rented.

Building two family houses on the same plan is popular in some towns and cities. An investor will erect a two family, double or duplex house, live in half of it until an opportunity comes to sell it, meanwhile collecting rental from the other portion. A two family house is usually one with suites on the ground and second floors. A double house is one in which the living accommodations are side by side, with living rooms below and bedrooms above. A duplex is the same as a double house, except that it is located on a corner, with individual entrances, one from each street. Such buildings meet with ready sale, and prove good investments for both builder and buyer.

Four family apartments have been erected in large numbers in many cities. These usually have individual heating plants, and do not entail janitor service. Each tenant looks after his own portion of the maintenance required, and about the only expense in connection with such a property is providing front and rear hall lights, the payment of taxes and repairs, and charges incidental to occasional decorating. Such buildings should earn from eight to fifteen per cent net on the money invested.

Larger apartment properties involve a greater outlay in cash and entail greater problems as to management, especially when heat and hot water are furnished. In larger cities a great proportion of the inhabitants reside in apartment houses and pay rent commensurate with the quarters and facilities enjoyed. Due to congestion, individual homes slowly disappear from the centers, and even outlying sections of larger cities, and about the only place to reside is in hotels or apartment buildings. Thus

there opens up a vast field for building development in housing the thousands who do not desire to maintain individual homes of their own in outlying sections.

The older apartment buildings in American cities contain, for the most part, suites ranging from five to ten rooms in size. Soaring building costs have caused a cessation in the building of these large units, and most of the newer buildings are what are known as the kitchenette type, with one, two, or three living and bedrooms, a small bath, and combination dining room and kitchen. The bedrooms and often the living room are equipped with what are known as inadoor wall beds, which during the day are secreted in closets, to be let down for use at bedtime.

It is estimated that the gross rentals from steam heated apartment buildings must represent from fifteen to twenty per cent of the property valuation to net an eight per cent return to the owner. Expenses involved are the purchase of coal, hiring of janitor and repair men, water, electric light for halls, gas for hot water boilers, insurance, taxes, payments of interest on mortgages and, if the property is managed by a professional apartment house manager, an allowance equal to five or six per cent on the total amount of the rents collected is made. There is a constant building, buying and selling of such apartment buildings in cities. Care should be taken in assuming such an obligation. It is well to consult a realtor who is thoroughly familiar with such propositions before acquiring one as an investment.

Co-operative apartment houses have come into some favor in the larger cities during the past several years. An investor selects a certain suite in a building about to be erected, and then pays his pro-rata cost in advance, or in installments as the building is erected. He then owns outright the particular quarters assigned him, and his only obligation thereafter is the payment of certain maintenance charges covering taxes, heat, electric light and general outside repairs. He assumes all obligations for the repairs to his particular suite. Frequently such buildings devote the ground floor to commercial purposes which may bring a revenue sufficient to offset any additional charges after the initial payment has been made, and may even afford a profit. If the owner of such an apartment desires to live

elsewhere, he can either sell his suite, or rent it at a figure which would return a reasonable rate of interest on his investment. These so-called "own your home" apartment developments are becoming quite popular in some cities, and to those who prefer apartment house life, they afford a method to invest one's funds instead of buying an individual home. In investing in such a project substantiate by proof every statement made, and understand thoroughly the obligations you are asked to assume.

A very popular and satisfactory form of building investment is the one which has stores on the ground floor, with offices or living suites above. These usually are built on business streets where values have a reasonable expectancy of increase. If such expectancy is realized, the rentals on the stores are likely to steadily increase, while the rentals on the second floor space will at least remain stationary, if they do not actually increase as time goes on. The average tenant on the upper floors of such buildings is easily satisfied as to accommodations and service, and usually pays his rentals promptly. For the modest investor, the ownership of such a building usually proves profitable.

Large business buildings in prominent downtown locations are successful in the degree of relationship that rentals received bear to the cost and maintenance charges involved in such structures. It is significant that many large structures in almost any city are monuments to their builders. Banks, newspapers, and wealthy individuals enjoy erecting monumental buildings for the purposes of self advertisement, or to perpetuate their memories. Most of these buildings seldom pay a return equal to the current rate of interest on investment funds. The rentals received from the ground and second floors of a business building ordinarily should carry the investment and provide the profit. Floors above the second story in most buildings do not pay a return greater than a reasonable rate of interest on the investment, plus carrying and maintenance charges. Often a well planned and properly tenanted two story building will pay as great an actual profit as a ten or fifteen story structure adjoining it. This is not always the case, of course, but it is the usual experience. There are now skillful building managers, who by careful operation have changed conditions somewhat, yet the person or corporation erecting a large monumental

building must stand ready to write off a portion of it to advertising or civic pride.

There are a variety of special purpose buildings which often show good profits, but they should be carefully considered. In some of the larger cities market houses, containing large numbers of small stalls, have been built in recent years, being promoted by stock companies for the most part. Many of these ventures have not proven to be money makers, although some have been successful. In the past decade, the moving picture business has swept over the country until movie fans now number into the millions. Real estate developers early realized the value of providing modern playhouses for the showing of moving pictures. The large cities have seen them built by the scores, while every village and town has its reconverted store or moving picture "palace." Investment in enterprises of this sort should be carefully scrutinized. One great difficulty is that such a building is seldom convertible to other uses should it fail in its purpose as an amusement center.

In most cities, gasoline service stations are owned and operated by large oil companies, but in some places private enterprise has furnished accommodations of this character. The utilization of undeveloped business corners on main arteries for this purpose has been found profitable, being amplified by the erection of accommodations for tire repair, battery, washing, greasing and similar concerns. Any main highway, whether in or out of town, will have sites suitable for a temporary or permanent development of this kind. Rentals on such sites frequently represent from six to twelve per cent of the property valuation. Of course such property, in all probability, is also advancing in value, so the investor eventually reaps the increment coming to the land in addition to the rentals received.

Almost every town, and all the larger cities, have a Luna Park, Coney Island, or similar enterprises, where entertainment for the summer season is provided with their roller coasters, dance halls, skating rinks, and summer park attractions. These parks, operating only three or four months during the year, in most instances, must earn substantial returns to be successful. It requires some close figuring to determine whether an invest-

ment of this sort will pay a fair and permanent return on the money.

To the investor who has ample funds, the central business district of any growing city naturally offers the greatest attraction. Here the largest fortunes in real estate are made. It is said that the value of the central business districts of twenty-seven of the leading cities of the United States is greater than the value of all of the railroads in the country. Retail business property can collect public toll in a manner denied most other forms of real estate, and is approached only by outlying property of a similar character, situated for the most part in blossoming business centers.

Downtown sections offer the most in the way of land increment in any city. Business shifts in most cities come in cycles ranging from ten to twenty years. Districts outgrow themselves or expand, and new sections see new improvements erected, new values created and higher rents received. Increasing population reflects itself in a constant spreading out of the congested downtown business area of any city, and as the expansion goes on new tenants move in who are able to pay an ever increasing scale of rentals for locations.

Purchase of downtown real estate in a growing city involves an investment of considerable money, unless a long term lease is taken on such property. The utility of ninety-nine year leases in such territories is discussed eleswhere in this volume. If a person is able to acquire control, by either purchase or lease of a downtown piece of real estate, and is willing to hold it until such a time as the business tide overtakes him, substantial profits are certain to come.

* * *

Yes, there always will be men who will point to the corner lot which they could have purchased for $6,000 fifteen years ago, and who lament today because it is worth $85,000. Yet, today there are as great, if not greater, opportunities to make money in city real estate than ever before. Fifteen years hence the $85,000 lot is likely to be worth $400,000, or more, and another mourner who turned down a good deal today will rise to explain how foolish he was not to have taken the necessary action to become the owner of that particular corner.

The time to buy real estate is NOW. If you have the money to invest, or can get it, do not hesitate in taking the necessary steps to become a property owner at once. Other securities and evidences of value may be all right and proper in their own places, but nothing so satisfies the human heart and head as the pride of ownership in a well located piece of God's own footstool!

CHAPTER 6

INVESTING IN VACANT LOTS

Money can be made in buying and selling lots—How lots in subdivisions are sold—Many conveyed on land contract, or part cash payment—How to merchandise—Houses and their occupants add greatest value—It takes several years for an allotment to sell out—Average buyer does not care to pioneer—The analogy between lots and children—Always a time to buy and to sell—How to get into this branch of the investment field—Periods when lots sell best—How to select a lot, and the elements which create value—Two striking examples of profit taking—Continuous operating makes money—Be willing to accept a fair profit quickly—Do not disparage property before you see it—When you can afford to pay in advance of the market price—Practical advice on lot buying.

Money can be made by investing in well located vacant lots. Incidentally, money can be lost in buying certain types of vacant lots. Any non-income producing property can be either an asset or a liability, depending upon the ingenuity and acumen of its owner. A merchant may have a fine line of merchandise on his shelves, but if he foolishly locks his doors and goes away for a six months' vacation, he cannot expect to show a profit on his balance sheet at the end of the year. There is a fundamental difference between the commodity under discussion, and the merchandise of the average storekeeper. Vacant lots are generally situated in or near a growing city, and are constantly increasing in value commensurate with the growth in population of the city, whereas the average nationally advertised staple merchandise brings as high a price in Rising Sun, Ky., as in Chicago.

In discussing the question of making money by investing in vacant lots, let it be assumed that the examples which are cited are in a typical large city of about 1,000,000 population, such as Detroit, Cleveland, or St. Louis. Acreage is acquired by a subdividing company, allotted into restricted residential lots and sold in an intensive campaign by salesmen who canvass specially selected lists, or who canvass from door to door. The retail selling price of lots is usually figured on the rule of three, or four to one—that is, the entire tract is marked for three or four times the cost of the original acreage, assuming that the subdividing

company has not paid an exorbitant price for its acreage, but has wisely bought property that is accessible to transportation, or in line of future transportation extensions.

The majority of the lots will be sold on land contract, with a cash payment of from ten to twenty-five per cent, the balance to be paid in monthly installments of one or two per cent of the sale price. This payment sometimes includes interest on the deferred balance, or the interest is payable at semi-annual periods, in addition to monthly payments. What is the possibility of making a profit from a lot so purchased? There, of course, will be a wide difference of opinion.

By proper management, a profit can be realized from such a purchase, but what is meant by proper management? It means the exercising of sound business judgment, the same as is required in the management of any merchandising business. The selling price of lots in a new subdivision is generally placed at a figure which represents all the traffic will bear, because there is considerable expense entailed for advertising and selling costs, including commissions to salesmen, sales superintendents, general managers, collection costs; shrinkage due to defaulted payments, mortgage and bond issue financing costs, installation of improvements and other items. Consequently, the purchaser of such a vacant lot must not expect to make a profit immediately. He should look at his investment as a long time compulsory savings enterprise, just as he would regard the purchase of savings and loan stock, or life insurance. He should not be carried away by the enthusiasm of some "high pressure" salesman into the belief that his particular lot is going to be resold in three or six months at a handsome profit. It simply is not being done, except in the isolated case where some unlooked for public improvement brings a rush of people into a neighborhood. In this discussion, the average case only is being considered.

Experience has shown that the chief factor creating increases in value in vacant lots is the coming to the locality of people and houses. Transportation facilities and schools themselves do not make values, or create population. They tend to locate and distribute people, and people bring houses, and houses

mean increases in value. Every new house erected on a street adds a certain definite value to every vacant lot in the block. Experience has also shown that the average new subdivision requires a period of from four to eight years from the time it is originally marketed before resale of individual lots will show much of a profit to an owner.

The first several years after a subdivision is placed on the market the individual lot owner is confronted with competition on the part of the allotment company itself, which has the remaining unsold lots on its hands, which it can continue to offer at a price somewhat below what an individual owner can quote to make a profit.

The average buyer does not care to pioneer. He likes to be where other people are located, and consequently he waits until a few houses have been built in a neighborhood before he makes his selection of a homesite.

A striking analogy can be made between vacant lots and children. You cannot expect a boy of tender years to do a man's work. Neither can you expect a lot of tender years to pay you a profit such as you might expect from a mature piece of property. The problem therefore resolves itself into the question of analyzing your merchandise to determine the proper time to sell to get a maximum of profit. It is necessary, too, to analyze local conditions to determine just when is the adolescent period of your property, so that you will not be foolish enough to carry it through into the period of final maturity, or even past the time when you should realize your maximum profit.

Like the youth who is still in school, your vacant lot is a constant expense, because of the ever present tax and interest expense. Special assessments develop for street paving, sewer, and sidewalk construction, and sometimes discourage the lot owner from persisting in the completion of payments on his contract. Often he becomes so burdened with other responsibilities that he sells the property at a sacrifice to get rid of the millstone around his neck. Do you give away your boy just because he is expensive to maintain? Not at all! There is a personal element entering into that problem which makes you put your shoulder to the wheel to enable the boy to complete his educa-

tion. Then he goes to work with the enthusiasm and energy of youth, because he has been managed and directed properly. Do the same for your vacant lot, and it will pay you a profit.

There is always a time to buy, and a time to sell. Most of the big things in life come from small beginnings. It is an interesting fact that many a wealthy owner of real estate got his start through acquiring, by compulsory saving, a small equity in a vacant lot, which, when sold, gave him working capital for other and larger real estate investments. In the course of years he may have sold the lot at actual cost, but nevertheless he acquired a habit of thrift through his compulsory saving enterprise, which taught him the rudiments of operating in real estate.

Now, let it be assumed that you have a couple of thousand dollars cash in the bank with which to buy a piece of property. You inspect several income producing properties, but are overwhelmed by the burden of mortgages which must be assumed in the event of purchase, so you turn your attention to a well located vacant lot in a fairly active section. To buy wisely one should study the flow of demand in the general territory, and analyze sales and transfers to determine where the buying is going on. Then buy just a trifle ahead of the present activity. It is well to buy when the majority wish to sell, and sell when the majority are anxious to buy.

The general season for the sale of vacant lots in most cities is from March 1 to July 1, and from September 1 to November 1. Therefore, buy in an off season, say in the month of July. Having ascertained from a reliable broker who knows the locality thoroughly, and who can quote definite, authoritative figures as to actual sales, as well as asking prices,—for actual sales are the best criterion of value,—then proceed with the negotiations.

Assume that the purchase is to be made strictly for investment, and not as a combined investment and home location. It is difficult for the average buyer to visualize the future growth of a territory, and his judgment is usually warped by a desire to pick a location such as his own personal desires dictate for a home location for his family. Cover the ground carefully, select a lot within at least half a mile of transportation, an in-

side lot, not a corner or butt lot, and one that lies a trifle above the sidewalk level, preferably with a gentle slope to the rear, so that drainage is away from the house rather than toward it. If the lot is attractively wooded, without too many large trees where the house will ultimately stand, it may be particularly desirable as many people prefer wooded lots to shadeless ones. It should be located within easy walking distance of a grade or parochial school, and on a street where at least a house or two ot good design has already been erected, establishing the type of development for the street. If you can buy a lot from an original owner, who has become tired of carrying it, so much the better, for if the lot has changed hands several times, at least several profits have been taken, and the commissions paid. It is well, also, to find an owner who has some good motive for selling, and does not require too great an outlay of your cash.

Assume that you buy a lot for $3,000, with a down payment of $800 or $1000, the balance to be paid in the form of a mortgage at six per cent interest, the entire principal to be paid in two or three years, or possibly a small payment the first year, and increasing the payments during the second and third years. You now have salable merchandise that can be carried for a year or so with very little expense, until such a time as the flow of demand which you have anticipated has had an opportunity to reach the property in question. In the interum, keep closely in touch with the asking prices of neighbors. Your broker is constantly on the lookout for a purchaser who will be attracted by interesting financing and who can pay you your equity in cash. It should always be kept in mind that it is unwise to try to buy at the very lowest figure or sell at the very highest figure. Be satisfied with a reasonable, legitimate profit and endeavor to make a "turn over" as quickly as possible.

If your drygoods merchant only moved the goods off of his shelves once a year he would soon land in the poor house. If he can make a turn over of his stock every four or five months, he makes a profit, but if he can turn his goods every thirty days, he can increase his profits tremendously. For example, analyze the following actual illustrations of two lots acquired on the same date, one being sold ten months later, and the other 99 days later;

CASE 1
(10 Months' Carry)

Sublot No. 47

Selling price 7-1-24		$6,000.00
Purchase price 8-29-23	$4,250.00	
Escrow expense, etc.	14.50	
Interest on $2,500.00 mortgage 8-30-23 to 7-1-24.. 10 mo.	125.00	
1 year's taxes	150.00	$4,539.50
Gross profit		$1,460.50
Selling commission	$ 325.00	
One-half escrow fee	12.50	
Title expense	20.00	
Revenue stamps	3.00	
Drawing deed	3.00	$ 363.50
NET PROFIT		$1,097.00
Original cash investment		$1,750.00
Total cash available for investment		$2,847.00

$1097 net profit is 62.6 per cent of original cash investment of $1750 for 10 months' period, or 75.1 per cent per year.

CASE II
(99 Days Carry)

Sublot No. 48

Selling price 12-6-23			$5,000.00
Purchase price 8-28-23—			
Cash	$1,750.00		
Mortgage 1 yr. at 6%	2,500.00	$4,250.00	
Escrow expense, etc.		$ 14.50	
Selling commission		250.00	
Interest on $2,500 mtge, 8-29-23 to 12-6-24		40.41	
Title expense		20.00	
Revenue stamps		2.50	
Drawing deed		3.00	$4,580.41
NET PROFIT			$ 419.50
Original cash investment			$1,750.00
Total cash available for reinvestment			$2,169.59

$419.59 is 24 per cent of the original cash investment for 99 days, or approximately 66 per cent per year. But in Case II, the investor immediately invested $2000 of his $2419.59 in sub-lot No. 584 on December 17th, on another street, making a somewhat quicker turnover as follows:

Selling price 1-20-24			$2,600.00
Purchase price 12-17-23—cash	$2,050.00		
Escrow expense, etc.	14.00	$2,064.00	
Selling commission		$ 125.00	
Title expense		20.00	
Revenue stamps		2.50	
Drawing deed		3.00	$2,214.50
NET PROFIT			$ 385.50
Original cash investment			$2,000.00
Available for reinvestment			$ 2,385.50
Plus balance of capital from previous sale			169.59
Total available for reinvestment			$2,555.09

The sum of $385.50 is 19 per cent of the original cash investment of $2000 in 34 days, or approximately 323 per cent per year.

In other words, in about five months' time, the investor in Case II has increased his original capital of $1750 to $2555.09, whereas in Case I, it was increased to $2847 in ten months. In Case II he still has opportunities for reinvestment during the remaining five months.

Now, the casual observer may remark, "the two investors will probably come out about the same over a long pull" but that is not the case. The great temptation with most owners of unimproved real estate is to carry their holdings too long, only to find themselves eaten up with carrying charges. Most money making opportunities in vacant property have to be bought quickly so the investor with funds always available and ready to deal quickly gets the pick of the opportunities.

Investing in merely one vacant lot would hardly justify your devoting your entire time to the study and analysis of the territory surrounding your particular property. Consequently it is the part of wisdom for you to select a competent and reliable

broker who knows the territory, and who can prove to you a record of sales where profits have been made for other customers. If he has made money for others who speak well of him as to his integrity, and the workmanlike manner in which he handles his deals, you will make money by trusting him and indicating frankly that you do trust him. You should not ask him to do your deciding for you, but merely use him as a means of securing reliable information and as a contact with the party from whom you are buying, or to whom you are selling. A broker, with your whole hearted cooperation, invariably can make better deals for you in both buying and selling than you can do yourself in dealing directly with an owner or buyer.

Do not seek to "milk" the last nickel out of your property, but be willing to sell it at a price where the buyer is securing a good deal either as a location for his home or even as an investment. Do not refuse to accept a small actual cash profit if the percentage of return on your invested capital is great. Do not try to cut your broker's commission. If you pay him his commission gladly and willingly, being a normal human being, he will enjoy working for you and will bring you many interesting propositions which otherwise he would present to persons whom he considers better customers.

Do not disparage a property to a broker before you have seen it but always be willing to investigate. Although you may look at many properties which you do not buy, you will quickly accumulate a fund of information as to conditions, prices and sales, which will give you a standard of comparison with which you can substantiate or reject the statements of your broker.

If you are buying in a territory that is just beginning to show marked activity you can sometimes well afford to pay the market price or even a trifle in advance of the market price, if you can get reasonable terms, enabling you to carry the property through to the period where it will give you the maximum of profit.

Just a word of caution about holding vacant lots too long. Keep always in mind the idea of quick turn over, and because the market is rising rapidly, do not be hoodwinked into the idea that it will always continue to rise. Many people carry property through its period of adolescence into the period of final maturity

and then find themselves in the midst of a stagnant market where they can only sell at a price much lower than they have been actually offered. This results sometimes from their cupidity being aroused by the fact that they are frequently asked for prices on their property and feel that they have something of exceptional merit.

The buyer who can afford to pay you the greatest profit naturally is the ultimate consumer who desires to build a home on the lot he is acquiring. He buys for location because of schools, car lines or friends in the neighborhood and usually pays cash because he gets a construction loan for his house, and necessarily must clear the lot before going ahead with his building operations. He is the ideal buyer for an investment vacant lot. He usually buys a short time before he is actually ready to build, and at a time when money is easy, and no difficulty is encountered in getting a construction loan. Every so often banks and savings and loan companies "tighten up" and do not grant construction loans. Thereupon the lot buyer who is figuring on building a home at once decides not to buy, and consequently a prospective purchaser is removed from the market. Then is the time to buy instead of to sell.

Money can be made every day in the buying and selling of vacant lots, but the amount of money that can be made out of a given capital investment is directly proportionate to the accuracy with which one keeps a record of costs, to the ability and activity of the investor, and his broker, and to the degree of judgment that is exercised in managing the capital invested.

CHAPTER 7

TYPES OF INVESTMENTS IN COUNTRY REAL ESTATE

How suburban development reflects itself—Many fortunes made in buying outlying acreage—Buy land on or near main outgoing arteries of travel—How vacant property may be made to maintain itself—Small farms of five to twenty acres as investments—Farm land must be bought on an earning basis when used for agricultural purposes—City dwellers long to own farms—Hazards of buying country property—Orderly development of vacant property contiguous to cities—Optioning farms for a term of years—Developing suburban property into fruit farms—Don't go far out to buy a residential lot because it is cheap—Gentlemen farmers; their joys and woes—Special purpose uses for outlying property, such as parks, cemeteries and golf courses.

Land situated at the center and on the circumference of a growing city advances most in value. Property lying in between, while not always stagnant, is often sluggish in its movement, and the increment to be realized from it usually is less.

The reason for this is that downtown real estate feels the impetus caused by the bidding for more favorable locations by retail business. On the outskirts there usually is activity in promoting new subdivisions, creation of new business districts, and the gradual absorption of farm land for the further expansion of a city. This trend of suburban development reflects itself out for miles beyond the limits of a town or city. The size of a city, and the rapidity of its growth, will influence the extent of the demand for suburban property.

Suburban acreage has made fortunes for many persons of vision who have gone out in advance of the demand, secured possession of well located tracts, and then held them until the insistent call for subdivision or business property has made itself felt. Land bought at from $200 to $1,000 per acre in or near large cities, and held for investment, frequently has sold at prices ranging from $3,000 to $5,000 per acre a few years later.

Buy such land on main, heavily traveled highways, if it is possible to obtain it. If improved transportation facilities extend out at some future day, so much the better.

A variety of means has been taken by owners to make property on such main highways help carry itself. Sometimes a

gardener is given a lease on the land, if suitable for such purposes. Occasionally a greenhouse development will help carry such land for a few years. Frequently there is an opportunity on corner properties to make leases for gasoline station purposes. An old dwelling may be rented for a suburban road house, dance hall, or restaurant. In some cities such land has been made to pay its carrying charges by the building of tracks for horse and motor races. Such enterprises must be conveniently located to cities, but cannot indefinitely afford the investment necessary as land becomes increasingly valuable for residential, manufacturing, and business purposes.

Devoting attractively situated land to use as summer camp sites is now common in many localities near cities. For a comparatively small rental a camper is permitted to erect his tent and use the land for several months during the summer season. This brings in a small revenue, which helps to pay carrying expenses of land.

Owners of property situated on main highways near large cities sometimes secure additional revenue by establishing tourist camps where automobilists may stay over night. A small charge is made, and additional revenue is sometimes secured through the operation of a small store, "hot dog" stand, and the sale of fresh milk and vegetables.

A popular method for holding land for future development is to acquire a large tract, organize a golf club, and lease the land for a term of years. Every city now has one or more golf clubs, and with the increasing popularity of the game ventures of this sort may be undertaken with comparatively little fear as to their success. Many cases may be cited where groups of men have formed golf clubs, invited in their friends, used close-in acreage for a few years, and following the development of such land into homes, have acquired another tract farther out in the country for a new club site.

One subdivider has promoted a lake front development some miles distant from a large city, where hundreds of lots were sold in conjunction with the opening of an eighteen hole golf course. This course is to exist as such for a term of years. The subdivider is then at liberty to cut it into home sites if he desires to do so. The golf club is the attraction which really is selling the

proposition, and the subdivider will, through the golf club membership dues, easily carry the land until there is a demand for its more intensive utilization.

Little farms ranging from five to twenty acres, if conveniently situated, and in the line of a city's development, may profitably be acquired and held until such a time as they can be subdivided for the erection of homes. The carrying charges on such properties usually are much less than the increase which comes in the value of the land each year. When it is remembered that an acre of land can be cut into six or seven ordinary sized city lots, the selling value of such property, when properly improved, readily can be recognized.

Ordinary country land, purchased by one who expects to operate a farm as a going concern, must be bought on an earning basis. The price paid must represent an amount equal to the capitalized yearly income of such a property. During the Great War, when foodstuffs were in great demand, and high prices were being paid, farm sales were brisk and high land prices were realized. Following the war, when the demand for food for export to foreign countries dropped off, the price of farm land sagged sharply, indicating that a farm, as such, is worth about the price on which it will earn a return.

Nearly everyone, at some period in his life, longs to own a farm. We have suffered from the "farm bug" ourselves, and have been through the mill. A farm of fifteen acres, six or seven miles beyond the limits of the city, was acquired at $125 an acre. Seven years later, after a fine brick pavement had linked the farm with the city, it was sold at $600 per acre, plus a profit on the improvements which had been added to the property. The place was sold at that particular time, not because of the profit offered, but because a questionable allotment development was projected nearby, which made it seem wise to decamp before an undesirable neighborhood grew up in the vicinity. It was a case of knowing when to sell.

So much depends upon the individual character of a property, its surroundings, price and availability for future city development, that it is difficult to give other than very general advice regarding the purchase of farm land. The chief difficulty

with outlying property is that it is subject to no restrictions worth mentioning. One can have very little knowledge as to the probable character of development which may come five, ten or fifteen years later. The neighborhood may become an exclusive one, or it may degenerate into a very commonplace sort of section. One must use his own judgment in this respect, and try to visualize the future. The better the class of development promises the more you will have to pay for the land when you buy it, but the more you will realize from its resale at a future date.

Effort has been directed in recent years toward the orderly development of suburban territory. Groups of property owners controlling land near growing cities have followed a plan of incorporating a village covering a considerable area of suburban land. Following incorporation, an engineer is engaged, who carefully plats out the entire area included within the village limits. Streets are laid out on paper, having in mind the best utility of the land concerned. These plans are definitely adopted, and property owners in selling their land, know exactly what can be done in the way of future development. This immeasurably improves the territory and results eventually in a much higher type of development than would be enjoyed if a definite platting plan had not been followed.

One man who has made considerable money by acquiring and selling farm lands near a large city has followed two definite plans. In one instance, he buys land in considerable quantities, assembling several adjoining large farms in some instances. He plants these out to fruit trees, places a superintendent in charge, and after several years they come to a bearing state, thus providing a revenue to carry expenses. Another plan, which he has found quite successful, is unique. He will note a farm attractively located, and in the general pathway of development. He will inquire from the owner the price wanted for it. The owner, in all probability, will ask somewhat more than the land is worth. The investor then suggests to the land owner that an option for five years be given at the price quoted, the investor agreeing to pay all taxes on the property. This sounds attractive to the farmer because he is not only promised a higher rate of return in five years than he is entitled to at the time the option is given, but he also is relieved of the necessity of paying taxes,

Incidentally, the farmer overlooks the fact that the increment to the land in five years will doubtless be much greater than the price he has asked, plus the taxes which must be paid. When the five years expire, the investor arranges to assume ownership of the land, if he has not already contracted to sell it to someone else in the meantime at a substantial profit.

If you desire a lot on which to build a modest home, don't go away out in the country to buy it just because the lot happens to be cheap. In all probability, it is dear at the price you are paying for it. To live comfortably, a home owner requires water, sewer, electric light, gas, and other conveniences. Why not pay a little more money for land which has these facilities than go away out in the country and acquire a lot in a half baked subdivision which, in all probability, may never amount to much, and will afford but a scant return on the investment if at some future time you desire to sell your home and move elsewhere.

Remember that it ordinarily costs no more to erect a home on a well located city lot than it does away out beyond the city limits, where few comforts are obtainable. Many a man answers a call to the country when in reality he should stay right in the city. It costs money to own and pay the carrying charges on land, and to install new improvements on land away from the civilized influence of adequate city development. Unless you want to let yourself in for possible hardship, and serious inconvenience, be wary about rushing out into the country unless you are ready to bear the burden both as to money, time, and comfort.

This leads to a brief consideration of that more or less fortunate type known as "gentlemen farmers." You know the brand. It is represented in the story of such an individual who bought a fine hog in April for $16. He sold it in October for $18.

"Why, you darn fool," exclaimed a friend on hearing of the incident, "What did you do that for?"

"Well," said the gentleman farmer, "I had the use of it all summer, didn't I?"

Most men when they become wealthy enough to play at farming usually proceed to take a whirl at the game. They buy expensive land, often paying excessive prices for it, erect fine

buildings, secure high grade livestock, drift along for two or three years until they become amazed at the cost of their hobby, and then pass the property on to another gentleman farmer who proceeds to learn his lesson.

These men often do a great deal of good in raising crop and breeding standards, and in setting examples to other farmers in keeping their properties in fine shape. They seldom, if ever, make any money at the business. If you would be a gentleman farmer, go into the project with your eyes and pocketbook wide open. The farm will last just as long as your money will.

Let it not be understood that it is impossible to make money in farming. It is a fact that money is seldom made above a bare return on the investment. The exception will be found in the man especially fitted by education, training and environment who fits into the picture, likes his work, and is successful in the farming business just as he would be in any other walk of life.

One would scarcely think it possible to make money in cemeteries, yet such developments when properly managed, and when there is real need for them, prove quite successful. A large acreage is bought at a comparatively low price, cut into very small lots, and sold out over a period of years. Mausoleums are erected, and crypts are sold or rented, giving additional revenue. Successful cemetery enterprises have been promoted in many sections of the country. If asked to participate in such a plan, investigate it thoroughly.

Summer resorts, established at particularly favorable points, have been instrumental in some instances in returning substantial profits to their promoters. Those resorts which have water facilities of some sort usually prosper most, for in the summer season people like to be near the water. Such enterprises can be made more profitable when a subdivision is promoted in conjunction with them. Examples of such developments may be found around small inland lakes, situated not far from a score of the larger cities of the country. Here amusement features are provided, hotels and cottages are erected, and a thriving business is done during the summer season not only in catering to those who come for just a few days' recreation, and who for

the most part live in hotels, but also those more permanent patrons who buy or build cottages, and return year after year to meet old friends and neighbors. Adequate rail or water facilities are imperative in promoting such resorts, despite the large number of persons who will come by automobile. The retail shops, restaurants and amusement concessions must benefit by the train loads of excursionists who come over week ends and on holidays, and who spend their money more freely than do the more or less permanent residents at such resorts.

CHAPTER 8

WHAT YOU SHOULD KNOW ABOUT A PROPERTY BEFORE YOU BUY IT

Discrimination necessary—Is the property worth the price?—Is the title clear and marketable?—Can you carry it?—Do you know its actual size?—Is it properly financed?—Do you know the rental conditions?—Are there special fire hazards?—Are there disagreeable odors?—Is the property a "butt" or "key" lot?—Is there undue noise or annoyance from factories or railroads?—Is it likely to be condemned for public or semi-public use?—Are improvements installed?—Is water supplied at proper pressure?—Are buildings on filled land?—Is gas available for a home property?—Other problems you should be familiar with in buying real estate.

Nothing purchased during one's lifetime requires more discrimination and careful investigation than does the acquirng of real estate.

Such a purchase usually involves the largest outlay of money spent by an average individual, and it behooves one to know fully all the particulars about a property before one's money is invested and the new ownership assumed.

Is the property worth the price being paid for it?

This is perhaps the most important question to be decided, and requires a painstaking investigation either by the buyer or his agent. Property values in the neighborhood should be inquired into to determine that an exorbitant price is not being paid for land. It may be well to look up tax appraisals at the courthouse, although such appraisals are seldom, if ever, a true indication of value, as real estate is seldom taxed upon its full market value. If one is familiar with the ratio of tax valuation to true property valuation, it may be an index which will be useful in checking values. Delve into land values in the neighborhood in every available source, and be satisfied that the price is a reasonable one.

If there is a building on the land being purchased, greater difficulty may be found in ascertaining whether a fair valuation is being placed upon it. Realtors long familiar with real estate

can advise concerning building valuations, or a contractor may be engaged to furnish a more detailed appraisal.

Has the property a marketable title?

That is a matter which will properly be passed upon if the deal is being handled in escrow with a title company. Part of such an escrow service consists of making a careful search of the title, and rendering to the buyer an opinion as to the marketability of the title. If there is any doubt as to the validity of the title, have the matter carefully passed on by a competent lawyer, for it may cause endless trouble later on. Do not be persuaded to accept a property suffering from a defective title. This may be cured sometimes by a title company issuing a title insurance policy, which usually is a sufficient guarantee to satisfy an average buyer.

Is the property financed in such a manner that the buyer can comfortably carry it within his means?

Properties which are loaded with first, second and even third mortgages, payments on all of which fall due monthly, quarterly or half yearly, often become a very serious burden, which in the end may mean the loss of the buyer's equity through his inability to meet the fast recurring obligations. Understand exactly what financial burdens you are required to assume, and hesitate to carry a load which may be beyond your financial strength.

Do you know exactly the size and boundaries of the land you are purchasing?

If there is any serious doubt, insist that an accurate survey be made. If the seller will not pay for such a survey, it may be money well spent to have it done yourself before you pay him good money for something clouded with doubt. You may avoid trouble later in developing or reselling the property if this problem is settled once and for all before you become the owner of it.

If improved, are the buildings adequate to the land? If not, are you paying too high a price?

There should be a reasonable relationship between the value of improvements and land. In the case of residences, the house is usually worth from three to four times the value of the lot. In business buildings, the ratio differs according to character and locality. In important downtown sites, a large building is

usually about the same value as the land. The determining of adequacy is one almost entirely of judgment. If you are not qualified to judge, consult someone who is.

Is the property properly financed?

It is most important that you know exactly the financial conditions surrounding the transaction you are about to consummate. Do you know definitely the rate of interest to be charged on the balance which will remain after your cash payment is made? Is the mortgage, or the second mortgage, of a character you are financially able to assume? Will the holder of a mortgage call your loan and force you to refinance the proposition at a time when funds are difficult to obtain? Have a very definite understanding regarding these matters before you commit yourself to proceed with a deal.

If the property being acquired is of a rental character, such as an apartment building, or a store and office structure, have you been furnished a careful statement as to actual rentals, length of leases, and a statement of actual expenses to check one against the income?

Check the rentals, if necessary, by personally consulting tenants. If there are written leases, insist on seeing them. Too great care cannot be taken to prove to your own satisfaction that the rentals represented meet the acid test of careful investigation.

Is the property subject to floods, tornadoes, or any special attack of the elements?

This is important only in sections of the country where such devastating influences prevail. It is well to consider the question, however, as frequently land which looks well in summer is subject to overflow of creeks and rivers in the winter or springtime, and great damage may be done, the expense of which must, of course, be borne when the new owner takes possession.

Are there any special fire hazards?

Possibly the building itself is a fire trap, or may be located alongside or near such a structure. Perhaps the building stands alongside of a railroad where sparks from engines may cause a blaze. Incidentally, it is well in buying a property to ascertain

the proximity of fire hydrants, and the amount of fire protection afforded the neighborhood.

Is the section affected by stockyard or other disagreeable odors?

Many a person has moved into a neighborhood when the wind was in the right direction to blow such odors away, but has discovered a few days later when the breeze was coming from an opposite direction that foul smells made the district almost unbearable to live in. Do a little quiet investigating on this subject before closing your deal.

Does the property you propose to buy consist of a so-called butt or key lot?

The first lot on a street back of a corner lot which fronts on another thoroughfore is known as a butt or key lot. It is risky to buy such a lot for residential and sometimes for business purposes, although not so much so as in former days when the owner of the corner occasionally decorated the rear of his lot with a stable. Nevertheless, it is dangerous, for your building may be setting up against one or more smelly and unkempt garages. Furthermore, the corner lot may be given over to business purposes now or at some future date, and an undesirable condition may be maintained which will cause a serious depreciation to your property. Whether the key lot is vacant or improved, give full consideration to the consequences which may follow if you acquire such an investment.

Is the property affected by undue noise from factories, or smoke and fumes from passing railroad trains or automobiles?

A visit to the property at different times before closing the transaction by which you become owner may reveal some startling suggestions why the owner is anxious to sell, and by the same token indicate to you very good reasons why you should not buy that particular property.

Is the property likely to be condemned for a street opening, a park, public building, or for some other public or quasi-public purpose?

It is unwise to buy a lawsuit, and that is what you often do when you acquire a property in the pathway of public or semi-public improvements. Municipalities and railroads possess the right to condemn a property, set a price upon it by court action

after expensive and distasteful litigation. Let the other fellow carry such a burden, and do not willingly be drawn into purchasing a property, the possession of which may be limited in time.

Are the sewers installed, are they adequate, and do they connect with proper sized main trunk systems?

There are two common types of sewers: sanitary sewers which carry away sewage from bathrooms and kitchen sinks to proper outlets, and surface sewers which are designed primarily to carry away surface rainwater from land. Sometimes sanitary sewers are unlawfully connected to sewers designed to care for surface drainage only, and difficulty will be encountered later by having the sewer disconnected, and the new owner compelled to undergo considerable expense in installing either a septic tank, or connecting with a sanitary sewer some distance away.

Is an adequate supply of pure drinking water available, and is the pressure sufficient?

In many new subdivisions which are just beyond a city's limits, and therefore, beyond its inspection control, water mains are installed by subdividers. These systems later become inadequate because of the large number of houses which must be furnished with water. In such sections it may be found that the water pressure is sadly deficient, and that new water mains later may have to be installed. This means added expenses and inconvenience.

Have buildings been erected on filled land?

In some sections a builder may fill in a ravine because a street has to pass over it. On such filled ground substantial buildings are sometimes erected before the land has settled thoroughly. These buildings may crack, crumble, or even collapse. Be sure that you are not buying such a questionable investment, for you may discover that a perfectly good-looking structure has started to slip, crack or actually crumble after a rainstorm which has caused the ground to settle or wash away beneath the foundations.

Is there a garage in connection with the property you propose to buy? If not, is there a place to build one?

Automobiles nowadays are regarded as necessities by most persons, and the availability of proper storage facilities should be ascertained whether the property is of a residential character or otherwise. It pays to spend a few dollars more and secure such accommodations, for if you do not use a garage, you can probably rent it. Anyway, there is no telling how soon you will take a notion to buy a car for your own use.

Is artificial or natural gas available for cooking and is the price reasonable?

Gas for cooking is almost as neccessary as electricity for lighting a home. True, one may use oil stoves of a sort, but it has been found almost impossible to sell other than very cheap homes which are permanently deprived of gas for cooking and water heating purposes.

Is adequate and reasonably priced transportation furnished the neighborhood in which you propose to buy property?

This is impotant for transportation is to land what arteries are to the human body. Accessibility is created through a proper street system, and adequate means of transportation over such thoroughfares. If a property is too far from a car or bus line to be conveniently reached, its salability may be seriously affected, should one seek later to dispose of it. The owning of an automobile does not necessarily solve the problem, for a new buyer may not own a machine, or a servant may not have one. If there is not adequate transportation, a future sale may be lost.

Are stores, schools and churches within a reasonable distance of a home to be acquired?

If not, great inconvenience will be suffered, and the property may not be sold at a profit. On the other hand, too close proximity to such places sometimes affect its sale.

Are telephones and electricity for lighting available?

If not, the value of an improved property is certain to be affected. Telephones and electric lights are essential to common comfort in homes these days, and nearly everyone demands that they be available for use if needed.

Is the roof of the building to be purchased in good shape?

Poor workmanship, and the incessant wear and tear of the elements can be innocently hidden in a roof which needs re-

pairing. If possible, determine the character of the roof of any building before buying it. This may seem a trivial thing, but replacing a roof is sometimes a most expensive operation.

Is the heating system sound and adequate to the premises?

Depreciation and obsolescence can lurk in the grate bars and pipes of a furnace or heating system. Sometimes they are just as puzzling as their names indicate. Prowl around a little in the cellar and size up the heating plant. It may save you money and discomfort later on when chilly winds are blowing.

Is the plumbing system in good repair, and is it modern?

You won't need to tear a building apart to determine this, but some casual glances may reveal the deficiencies in the plumbing of any structure. Many a buyer has discovered later that the supposed bargain he acquired contains leaking plumbing which ate up a great deal of money before being placed in a good state of repair. The plumbing system of any building should be carefully scrutinized before a deal is closed.

Do the interior walls of the building to be purchased indicate the presence of dampness?

Such a defect may be due to poor structural work or some other cause. Damp buildings are not healthy or pleasant to live in, and their purchase should not knowingly be entered into. Great trouble may be encountered in curing the difficulty and usually the effort is not worth while.

If farm property, is the land subject to overflow? Is it tiled? Has it been fertilized? Is the soil sweet and tillable? Is it underlaid with shale or rock? Is the territory subject to extended droughts?

A whole chapter might be written on what to look for in buying a farm. Cheap land, because it is merely cheap, and has no other redeeming features, may be dear at any price. The greatest care should be exercised in buying land for the purpose of cultivating and raising crops. Many a city man has hurried to the country to buy a farm, noticed some attractive trees, or a pretty view, and promptly signed up as a new owner. Later he has discovered many things he should have inquired about before buying. Often he quits and sells out, thoroughly discouraged and disgusted with rural life, largely because he did

not take proper precautions to make an investigation as to the merits of the land offered. He may discover, for instance, that what he thought was a lowland meadow in summer, is a dank swamp in the springtime, and that all he can raise is sourgrass. The land oftentimes is so wet and soggy that it cannot be plowed until midsummer, and crops seldom mature upon it. He may discover, in attempting to set out an orchard, that a foot and a half below the surface of what looks like a perfectly fertile field there is an underlying strata of shale or rock that will not permit the roots of trees to penetrate it. He may find that it will be necessary to spend a small fortune in labor and materials to underdrain with tile every field he proposes to use. He may even find that, in going into a new country, the summers are excessively dry, droughts prevail, and that nothing ever matures to a state where it can be harvested and marketed.

Many a modest fortune has been lost or hopelessly wrecked through lack of careful inquiry. There are pitfalls for the unwary which may be avoided only through unceasing vigilance. Hence it is wise, in buying property, to observe the following general conditions:

1—If at all possible, compel a seller to prove every claim he makes.

2—Don't be rushed headlong into a deal before being satisfied that every representation is correct.

3—If you are not qualified to pass upon matters which may be strange to you, take steps to secure proper advice from an unbiased third party, even being prepared to pay for the same. A little money spent this way may save a lot of cash and trouble later on.

4—Weigh well every argument why you should buy and be thoroughly satisfied that what you do buy is substantially what you want and what you are paying for.

5—If not satisfied, have the courage to demand full information about any questionable feature. In most deals the things mentioned in this chapter will not present themselves. However, you should be properly posted so that if a problem appears you are able to recognize it and protect yourself accordingly.

CHAPTER 9

SELLING A PROPERTY

Proper presentation necessary—Present analysis in logical convincing manner—Thorough familiarity essential—Value of carefully prepared statements of a property—Physical appearance of a property to be sold is important—Numerous "for sale" signs injure a property—Questions which must be answered—The problem of the proper utilization of property—Don't misstate or overstate facts—Don't argue with a buyer—Necessity for use of good old fashioned horse sense—When is the time to buy and sell?—Buy when the market is dull and sell when it is active.

Proper presentation of a property about to be sold will have much to do with its successful disposal at a price representing a profit to an owner.

Knowing how to analyze a property so that its good points may be presented in a logical, convincing manner is an art which takes many years to master, and one which is valued by the successful real estate broker, who usually is best qualified to do this work.

Thorough familiarity with a property offered for sale is essential. Many a sale has been lost when a broker or owner has been unable to answer some awkward question which an innocent buyer has suddenly propounded. If the information is not known or easily available complete frankness should be used in dealing with the problem. It does little good to "stall" a customer who desires to know something and wants to know it at that particular time. Confidence is likely to be undermined, and a sale may go glimmering if the question is ignored or answered in an evasive manner. Either frankly confess that the question cannot be answered, skirmish around quickly and get the necessary information, or definitely agree to secure the information and transmit it at a subsequent interview. Do not refuse to secure the information, and do not ignore the question if the buyer really desires an answer. You may forget it, but he may not!

Carefully prepared typewritten statements are used by many skillful brokers. These are gotten up with infinite care, and usually contain every fact bearing on the value, size, condition,

and availability of the property in question. The greater the care taken in preparing and presenting such definite statements, the greater confidence the buyer will have in a transaction. If a seller has any respect for his word of honor and for future consequences, he will never, of course, make a false statement in presenting such a statement to a prospective customer.

The physical appearance of a property will have a great deal to do with its salability. If a home, it should be shown in its best possible state. The house should be painted, the grass cut, all litter removed from the premises and everything be placed in a condition that will properly impress a person who wishes to acquire it. If a business property, the buildings should be painted, show windows washed, the sidewalks kept swept free of refuse, and the entire place made to appear as prosperous and attractive as possible. Tattered and disreputable real estate signs should not be countenanced, nor should there be more than one sign on the property. Nothing so arouses the distrust of a buyer as to see a number of "for sale" signs on a single property.

"Wonder what is the matter with this place," thinks the buyer. "Why does this property have to have so many signs on it to sell it? Guess it cannot be much good, or someone else would have bought it before all these real estate concerns decorated it with 'for sale' signs!"

The discerning buyer of a piece of real estate will be properly impressed with a careful summary of income and expenses, which should by all means be included in the prepared statement to be presented to him. He will be interested in knowing the revenue to be derived, and he also will be eager to find out exactly how much he will have to pay out of the revenue in the way of expenses. The amount of gain each year should be stated plainly in dollars and cents, and a computation made as to the percentage of earnings each year on the capital invested. Nothing interests a buyer so much as a definite statement of the possible profits he will realize if he makes a purchase. If possible, always satisfy his curiosity in this respect if you hope to clinch a sale.

The stability of the investment may be pointed out with the greatest freedom, for no one gets offended when you show him how he is to be protected. Some investors prefer stability to a large percentage of earnings, and will question you keenly if the

property promises to return a rate of interest above the average return made on that particular class of real estate.

If the property is of a speculative character, care should be taken to point out the possible increases in value which will come to it during the next several years. Public improvements in the neighborhood may be pointed out, possible street openings referred to, and every fact presented which will convince the prospective purchaser that he is acquiring something which is bound to increase in value with the coming of the years. The speculative element in a property appeals to the natural gambling instinct which everyone possesses, and if authentic information can be given that will tend to show the speculative elements of a property make it worth purchasing, such facts should be presented clearly and honestly.

If it is a residence, all of the facts which increase and maintain values in such properties should be carefully reviewed. If the place has an exceptionally fine view, it should not be overlooked, for every purchaser of a home desires to have a view from his premises which will be pleasing and restful.

The growth of a neighborhood should be carefully analyzed, and the prospect shown that it is advancing in population and popularity, and that because of these facts there need be no fear of a decrease in values at some future date.

"Am I getting my money's worth?" is the question asked instinctively by nearly everyone who is being sold a piece of real estate. Lacking knowledge, the customer is anxious and eager to learn every possible fact as to why he should buy, and pay the price asked. If this element of interest is satisfied, it will be found that a sale will be registered much more quickly than if the seller himself is ignorant of the advantages offered by the property concerned.

The character of a neighborhood, whether residential or business, should be pointed out. The better the character of the section, the greater the increment eventually will be, and that fact will greatly interest the buyer. All neighborhoods have character of high, medium or low degree, and the seller or broker should be able to translate into words a picture of the type of neighborhood in which the property is located. Close

familiarity with the section will be gained only after an exhaustive survey has been made by the seller or broker, and all the facts connected with the locality should be presented in as truthful and forceful a manner as possible.

A knowledge of structural conditions and values will always be of benefit to a seller. If one is able to point out the kind of material, the type of workmanship, the fact that a building is of a decidedly modern type, with all the latest improvements installed, the buyer will more readily be convinced of its merit. Little things which sometimes seem inconsequential are often the deciding factors in making a sale, especially if they point to a thoroughness of detail and construction used in the erection of a building about to be purchased.

If a business structure, attention may be directed to the manner in which it may be converted into new and better use.

"What is the matter with that building?" asked a broker of a prospective buyer of a business block. The building had a frontage of 100 feet, with two stores on the ground-level, suites and offices above, and presented an ordinary appearance.

"I don't know," was the answer. "What is the matter with it?"

"Well," continued the broker, "You see, that building is not being properly utilized. This neighborhood is filling up rapidly with comparatively small stores which are renting at constantly increasing prices. That building has only two stores, one with a frontage of forty feet, and another with a frontage of sixty feet. Both are too large in size for the rent being obtained. That forty foot store is rented for a poolroom. That is not a good class of occupancy, but fortunately there is no lease on it. That other store is used for a men's furnishing store, but due to the fact that a long lease was made some years ago, it is not producing a proper rental return. Its lease expires in eighteen months."

"Now, the thing to do is to cut that frontage up into five twenty-foot stores. The present rental can be more than doubled after eighteen months, and the building can be bought today on the basis of its having only two stores. You can afford to wait eighteen months for a time when you can increase the earning power of the ground floor 100 per cent."

That argument, made at the right time, clinched the sale, and subsequent events showed that the astuteness of the broker was the responsible factor for the later remodeling of the property, and its adaptation to a better class of occupancy.

With the coming into almost universal use of the automobile, and the restrictive policies as to its use being adopted so generally in towns and cities throughout the country, the questions of auto parking and garage facilities are important with almost all kinds of property. Big office buildings in cities are installing parking spaces in their basements. Some business concerns are leasing or buying adjoining lands for the purpose of furnishing facilities so their customers may park their cars. Factories are allotting considerable land near their plants for storage spaces for automobiles owned and operated by employees. Every detached house has its value enhanced by the presence of a garage. Apartments in cities are becoming difficult to rent if there is no place a tenant may keep his car. With this condition in effect, any information which may be given a prospective buyer of a property as to the convenience afforded in taking care of automobiles may assist materially in making a sale.

Proximity to transportation lines, schools, churches, and stores has been the determining factor which has sold thousands of properties. Never fail to point out any special advantages concerning these features. They may seem to be self evident facts to you, but a buyer may not know about them, and their revelation may be the point that makes a sale.

In the case of business properties, a recital of the improvements which have come recently to the neighborhood will prove of interest to a prospective buyer.

"That large building was completed just sixty days ago, and is forty-five per cent rented," explained one broker who was interested in selling a piece of downtown property. "Three of the four ground floor stores have been rented at new rental levels for this entire neighborhood. Over there is a three story building occupied by a retail concern which came to this section recently, bringing with it a trade built up over a period of thirty-five years. Over there a large commercial building is to be erected shortly, which will change the character of the neighborhood beyond it,

as soon as the improvement is completed. Growth is coming this way, and this property I am offering you is bound to feel the influence of all this new development." The broker, through familiarity with what was going on was able to tell an interesting and alluring tale. He made a deal because he had possession of the requisite knowledge required for that purpose.

"Knowledge is power," is an old adage which is only partly true. Knowledge is power only if directed into the channels where some proper use of it may be made. The seller or broker should be in possession of just as much knowledge about the property he is offering as it is humanly possible to obtain, and then he should present the facts in a way which will convince the prospective buyer that the property possesses all of the merits attributed to it.

Don't misstate or overstate the facts. You are likely to be tripped up by some quiet appearing buyer who will refute a false statement instantly. Then the deal is off, for nothing will so undermine the confidence of a buyer as a misstatement knowingly made by one who is attempting to sell real estate.

Don't underestimate the knowledge of a buyer if he happens to open up and tell you a few things you don't know about the territory. Perhaps he knows a lot more about things in that neighborhood than you do.

Don't argue with a buyer. It is a tremendous temptation sometimes to tell a buyer that he is a blockhead and doesn't know what he is talking about, but you can't make a sale that way. Everybody talks too much, anyway, and many a deal has been talked to death. Present your facts as fully as possible, and if the buyer wants to make an oration let him do so. A sale certainly won't be made by clapping down the buyer's safety valve. He is then likely to explode, and all the seller or broker can do is to wander sadly home, minus a profit or a commission.

It is a good idea to set down in writing the general points you want to present when making a sale. It is not necessary to read them to the buyer. The fact that you took the time and care to set them down probably impresses and anchors them in your mind so they will come up for utterance at the proper time.

Nothing is needed so much in selling real estate as good old fashioned horse sense. If a property has real merit, if the seller

knows what he should about it, and if the person to whom it is shown is in a position to buy it, and it meets his requirements, there should be a sale recorded. If a sale does not follow, it is most frequently due to the fact that the seller did not present his subject in a sufficiently interesting and alluring manner.

"When is the time to sell?" inquires someone. A rather general statement of this may indicate that the best time to dispose of a property is when the demand exceeds the supply. As a matter of fact properties are being sold all of the time. Business is said to revolve in cycles, with dull times succeeding prosperous times. The time to buy real estate is when the market is quiet, even dull. The time to sell it at the greatest profit is when there is a general period of business prosperity, and a spirit of investment or speculation is rife. This can be determined by reported transfers of property of a character similar to that which you may desire to dispose of.

CHAPTER 10

CLOSING A DEAL

Procedure not simple—There should always be a written agreement—Broker should care for details—There should be an adequate description of the property—Purchase price should always be definitely stated—Easements and other restrictions should be mentioned—Interest, rentals, taxes, and other charges should be pro-rated—Examination of title should be done carefully by an expert—Time limitation is important—Typical contract forms—Nine matters of detail which should be cared for in closing a deal.

Closing a deal for the sale of a piece of real estate seems to the average purchaser a simple matter, until he has gone through the experience and has overlooked details which should receive attention, with the result that every detail overlooked generally causes extra annoyance and expense.

In order to safeguard the interests of both the buyer and the seller, and have a true meeting of the minds, there should be a written agreement signed by both parties, accompanied by a deposit, called earnest money. The proper preparation of such a contract devolves upon the broker who makes the deal, and, if he is a reliable broker, he will carefully look after all of the necessary details. However, it is well for the buyer or seller to check up on these details to see that they are all properly taken care of in the contract, so attention is directed to a few of the essential elements of such a contract.

In the first place, there should be an adequate description of the property, either by lot number, or a sufficiently detailed description of frontage and depth in relation to adjoining property, so that there can be no mistake as to the exact property being sold. A description by house number is not regarded as sufficient, because people are not always particular about getting the house numbers correct from the city authorities, and there have been cases known where house numbers have been changed.

The contract should clearly state the purchase price, how it is to be paid, whether in cash or by the assumption of mortgages, whether the property is being sold upon a land contract, or by warranty deed. If by the latter method the contract should provide that dower right shall be released, and that the deed is

to be accompanied by an evidence of title in the form of either a certificate of title by some reputable abstract company, title insurance policy, or an opinion of title by some one competent to render such an opinion. This varies somewhat, according to locality. Such an opinion of title should state that the seller has a good title free and clear of all encumbrances, except restrictions of record, and such other exceptions as are noted in the purchase contract.

If the property is subject to easements, or involves a right of way over an adjoining property or properties, these should be carefully noted in the contract, with sufficient detail so that no misunderstanding can arise over them. This applies also to driveways in common with adjoining property owners, and other arrangements of a similar character.

The contract should provide for the pro-rating of interest on mortgages, rentals, water rentals, insurance premiums, and for the refunding of advance deposits made for water, gas, or electric light meters. It is a more equitable arrangement to pro-rate such charges as of date of acceptance of the offer to purchase or, in other words, the date on which the contract is accepted by both parties. In view of the fact that any increase in value which may accrue to the property justly inures to the benefit of the purchaser, the only just and equitable method is that the interest and all other charges, should begin to be paid by him on the same date. By having a fixed date for adjustments, a delay in securing title examination and recording papers will not work a hardship on either party in connection with such a settlement of fixed charges.

There should also be a provision made for the pro-rating of taxes and assessments, both general and special. Sometimes these are adjusted in a similar manner, and sometimes the seller pays the ensuing half year tax. Of course, the method of adjustment is entirely a matter of contract agreement, and should be thoroughly understood and decided upon at the time the contract is drawn up and before it is signed. There is no more fruitful source of misunderstanding and hard feeling than is found in the settling of matters of this kind.

Where the property sold is bringing in rentals, a date of possession should be provided for, and also a definite date for the

adjusting of such rentals. Two contract forms to be found in the addenda of this book have been found very practical in actual practice. The first form is one to be used by a brokerage concern and the second is designed to be used where no broker is involved.

The actual examination of title, and the making of adjustments should be entrusted to someone who is an acknowledged expert along these lines, and the buyer and seller should not object to paying reasonable fees for such expert assistance. It is usually money well spent, as expensive mistakes are thus guarded against. Where a broker is negotiating a deal, the contract should provide for the payment of his commission, and where an escrow agent is available, it should provide for placing the funds and papers necessary for closing the deal in his hands within a given number of days.

The contract should always provide that "time is of the essence of the contract," or, in other words, that the element of time is an essential part of the deal, the same as the payment of the purchase price, so that if either of the parties does not perform his share of the contract within a specified time, he has then broken the contract, giving the other party a legal right of action known as "specific performance."

When a written offer is made on a piece of property, the offer should contain a clause stating that it expires by limitation upon a certain date, so that in the event the contract is not returned to the prospective purchaser, it automatically becomes void at the expiration of the indicated time limit.

Where a responsible escrow agent is available, the deal should be placed in his hands, and it is customary for the escrow charges to be borne half by each party to the transaction. Such an escrow agent will see that the following details have been carried out:

> 1—That no title search will be commenced until all of the deeds and mortgages involved in the transaction, and the cash or other consideration have been deposited in his hands. Sometimes a seller goes to the expense of having a title examination made only to find that the purchaser has backed out of the deal, and left him to pay the abstractor's bill.

2—That all deeds, mortgages, and mortgage notes have been properly drawn and executed. This includes the checking of the description for inaccuracies, and seeing that the signatures to the deeds and mortgages are made before the proper number of witnesses, and acknowledged before a notary public in good standing, or other officer empowered to administer oaths.

3—That the proper number of revenue stamps are affixed to the deed. Formerly revenue stamps were placed on mortgage notes, but this is now no longer required.

4—That insurance premiums on the fire insurance policies have been paid, and proper assignments of the insurance policies from the seller to the purchaser have been executed.

5—That a title search is made for liens against the seller and against the purchaser. Escrow instructions usually provide that when the title examination shows that the seller has a good title free of all encumbrances, except such encumbrances as are noted in the contract of sale, he is authorized to record the papers which have been placed in escrow, and bring down the title examination, showing the property standing of good record in the name of the purchaser. If the escrow agent finds from the title examination any liens against the purchaser which might affect the title to the property if taken in the purchaser's name, he should notify the purchaser, as it might be advisable for the purchaser to take title in the name of someone else. The reason for this double search is that a pending suit against the purchaser might go to judgment after the purchaser has taken title to the property, and as the judgment would date back to the first day of the term of court, it might become a lien against the property being acquired.

6—That a detailed accounting of receipts and disbursements is made to each party involved in the escrow, showing exactly what distribution of funds has been made.

7—That a receipt from the county recorder's office for the recorded papers is furnished to the proper parties, or else the recorded instruments themselves returned.

8—That all defects of title are cleared up before the transfer of the property is made.

9—That the certificate of title, or the title insurance policy, is made for and at the instance of the purchaser, so that if the purchaser of the property later has any cause of action against the abstract company for damages for mistakes, he can bring an action himself. If the title examination has been made at the instance of the seller, then only the seller could bring action against the abstract company, and the purchaser would have to fall back on the seller instead of directly on the abstract company.

When a person has an attack of appendicitis and requires an operation, he generally goes to the best surgeon he can find, in order to take no more chances than are necessary. Do the same in closing real estate transactions. Go to an expert who is handling transactions of this kind as a part of his daily routine business. He can give you much valuable information and save you an untold amount of grief. Instances are constantly occurring where people unfamiliar with these details attempt to handle their own transactions, and frequently acquire a defective title to property. Naturally these defects of title do not crop out until they come to dispose of their holdings, possibly years later, when the chances of curing the defects and recovering damages are doubtful. In connection with closing a deal, thoroughly familiarize yourself with the contents of the next chapter, No. 11, entitled "Escrowing Real Estate Deals."

CHAPTER 11

ESCROWING REAL ESTATE DEALS

Escrowing the best way to close a deal—Broker in a transaction cannot properly act as an escrow agent—Practice dates back to old English system—Escrow agent is the third party acting as referee—Escrowing with a title company is best, as title must be searched—Risks avoided in escrow—How a deal is handled—Advantages to the broker—Problem of transferring fire insurance—How exchanges of property are facilitated—Broker is protected in securing his commission—Eight reasons why an escrow is advantageous to all parties concerned—Some of the things a seller and buyer should see to—Most brokers in cities favor escrowing of deals.

Experience has shown that the escrowing of real estate transactions with a regularly organized department of a competent title company is advantageous to the seller, the buyer, and the broker.

A broker cannot properly act as escrow agent in a deal because he is not disinterested. A bank or savings and loan company may serve as escrow agent, but can render only part of the necessary service that is performed by the title company's escrow department in one complete and continuous transaction. In smaller towns, where there is no title company operating, a bank is probably the best place in which to escrow a deal.

The custom of delivering a deed in escrow, and the law governing the practice, dates back to the early English law, and is aptly expressed by English law books as "a writing under seal delivered to a third person, to be conveyed by him to the person whom it purports to benefit, when certain conditions shall have been performed or satisfied; until which time it does not acquire the force of a deed."

The modern conception of an escrow has grown to mean considerably more than this, and the word "escrow" is applied, possibly incorrectly, to many transactions which involve a great deal more than the mere delivery of a deed and paying for the property.

There are transactions involving the refinancing of projects, or the paying off of liens, and a clearing up of title objections, which can be done most advantageously through an escrow department. These are somewhat in the nature of a trust business.

The first essential of a delivery in escrow is that the one delivering the deed has entrusted it with a third party, and has put it beyond his power to withdraw the same, at least for a time, until certain conditions have been complied with by the grantee. When the grantee has complied with these conditions, the delivery of the deed to him then becomes absolute, as the actual delivery of the instrument is what governs, and not the recording of it.

In years past, there was a greater possibility of the buyer and the seller knowing each other, and business was done on a basis of faith between parties to a transaction. The custom was for an abstract company or lawyer to make a search of the title to the premises, a deed would be prepared, and the parties would go to a recorder's office, and the seller would transfer the deed, and receive payment for the property.

It is now general practice in most cities for all title searches, abstracts, statements of title, and title insurance policies to be made by an abstract company, attorneys in cities having long since learned that this is the practical way on account of the great volume of records which they would have to examine, for which they would not be adequately compensated for the time spent. A competent abstract company's evidence of title is accepted as being a correct statement of the conditions of the title up to the time it ends its search, the date and hour of which is named in the evidence of title. By reason of the fact that the evidence of title must be written and compared, and placed in a proper condition to deliver, a certain time necessarily elapses from the last date of the examination of the records to the time of actual delivery of the document to the customer.

In various offices of a city and county, there are many places where transactions affecting the title to real estate are proceeding daily, and a knowledge of which can be gained only by carefully examining the records themselves. Judgments and decrees are entered in various courts; deeds, mortgages, leases mechanic's liens, agreements and numerous other papers are recorded; taxes and assessments are levied or re-instated on the county treasurer's books; public improvements are established, and levies and executions are issued, all of which vitally affect title to property. Furthermore a federal statute now makes a

man's income tax a first lien on any property he may own, and this is true as to third parties when certified to the clerk of the United States District Court, if the tax is not paid.

It can be readily seen that from the date of the examination of the title by an abstract company to the time of actual transferring of the deed, under the old system, many things might intervene, which are not contemplated by either party to a transaction.

By transferring property in escrow, these risks are avoided. The seller deposits his deed with an escrow agent with duplicate written instructions, the grantor or seller signing the copy held by the escrow agent, and the escrow agent signing a copy given to the grantor as a receipt for his papers. These instructions state definitely what the grantor is depositing, the amount of money or other consideration that he is to receive, the amount of taxes, interest, mortgages or other items which are to be paid off from funds due him, and also stipulates the kind of evidence of title which he agrees to furnish.

The grantee or purchaser deposits his funds with definite written instructions as to what he is to receive in return for his money, the comtemplated condition of the title being definitely stated. All taxes or other liens which he is to assume are mentioned, and an agreement as to purchasing the fire insurance from the grantor, if the same is contemplated. He is also given a copy of the instructions, properly receipted by the escrow agent.

It then becomes the duty and responsibility of the escrow agent to comply with these instructions, and if any unforeseen matters arise in regard to the title, no papers are filed or funds paid until they are corrected, or new arrangements made in regard to them.

The real estate broker, after having brought the buyer and seller together, and caused them to enter into a bona fide agreement for the sale of a piece of property, is thereby, according to law, entitled to his commission, but he naturally does not feel entirely relieved of the matter or satisfied until the transaction is closed, papers are on record, and the funds paid to the grantor, and last, but not least, that his commission is paid, as is done in

escrow. After he has made a deal, he would like to forget it, as far as possible, and promptly turn his activities toward new business.

In many transactions placed in escrow, the escrow agent not only searches the title to the property, but also prepares the papers, which the broker may not care to take time to do. While an escrow officer is not acting in the capacity of an attorney, yet from his experience in handling complicated transactions, he is able to materially assist the real estate broker in many ways in correcting errors, in settling disputes among the parties as to minor details, in preparing affidavits to show inconsistencies in title, and in other ways keep the parties to the transaction in a pleasant frame of mind.

Fire insurance should be transferred immediately after a deed is recorded. In transactions not handled in escrow, two or three days may elapse after a deed is placed on record, before the fire insurance agent is actually notified of the change in ownership, and the transfer made on his company records. When handled in escrow, the policies with proper assignments are deposited with the escrow agent, or if the policies are held at a bank with the mortgage, proper separate assignments are left with the escrow agent. He receives notice from the title examiner immediately after the deed is filed, and fire insurance assignments immediately are sent to the company representative, who effects the transfer on the insurance company's books, consents to the same, and attaches a mortgage clause to whomever is entitled to it. While reputable fire insurance companies would undoubtedly be willing to pay a loss if one occurred, to whomever was actually the owner of the property, even though not of record, yet there are many instances which could occur which would allow an insurance company to conscientiously refuse to pay a loss, or at least a full one, if the record owner was not the actual owner. One of these instances might occur in case the premium was in arrears. In this event the company would be entitled, and does not infrequently, refuse to consent to the assignment.

In most cases where the grantor or seller has insurance, it is agreeable to the grantee or buyer to assume it, and the escrow

agent, as one of his duties, adjusts insurance premiums and collects for the seller the pro-rata amount due.

The advantage of promptly paying off mortgages or other encumbrances not assumed in the transaction, in order to stop the accumulation of interest, can be readily appreciated. The escrow agent, as soon as the papers are filed, immediately pays off such encumbrances, and secures their proper cancelation. If mortgages are assumed, the interest is adjusted as of the day of transfer, so that the grantee assumes the burden of interest only from the date on which he actually takes over the property.

There are some transactions which are difficult to close in any way, except through escrow. For example if a loan is being secured by a purchaser, the funds from it go to make up the amount due a seller. In such a case, the individual or bank making the loan, will not allow funds to be paid over until the mortgage is on record as a first or second lien, as the case may be. Of course, the one selling the property will not allow his deed to be transferred to the buyer, until he receives the funds. Consequently a "melting pot" is necessary in such cases. The bank or individual making the loan gives the escrow agent written instructions that the funds are not to be used until there is a record of proper deed and mortgage, and immediately upon filing of the deed and mortgage, the funds are paid by the escrow agent to the seller.

The absolute necessity of an escrow is also apparent where a transacation involves a re-transfer of property to a third party, the funds of the third party going eventually to the original seller. By placing such a transaction in escrow, it is possible for the broker to handle the deal without the original seller necessarily knowing that the property is being re-sold by a purchaser.

Frequently real estate investors or brokers have transactions involving the exchange of local real estate for property in another city or adjacent town. In trading property it is essential that deeds do not pass, or funds be paid until both titles are in the names of the respective purchasers, and all details completed, according to their contracts. The escrow agent in one city is able, through a correspondent in another, to place half of the transaction with him, and retain half himself, stipulating that deeds be filed concurrently. The practical way of doing this is

that both title examiners make their searches up to the last possible moment and then, conferring by telephone, advise each other at exactly what time to file papers.

There is another class of transactions, which, according to the strict legal interpretation of the word should not be called escrows. This concerns property which has become involved in a lawsuit or a foreclosure, or on which liens have been filed, and where the property is not being sold, but is being refinanced, or by some other means various claims are being paid off. Lien holders do not care to cancel their rights on record by a mere promise of payment, but are willing to deposit a proper evidence of their claims with an escrow agent, who, when he has all liens properly satisfied, is able to record all satisfactions at one time, and pay them off.

If for any reason an escrow cannot be completed eventually, and the parties desire to withdraw the papers, a broker does not lose a commission, as the contract between the original parties is not annulled. There is some legal question as to whether an escrow agreement supersedes a contract, but a careful escrow agent always inserts in the instructions a provision that the escrow agreement does not in any manner change any previous contract which the parties may have entered into between themselves.

Practical advantages of escrow, therefore, are:

1—If the buyer is interested in knowing the conditions of the title, up to the time he considers purchasing a property, then why not up to and including the time of filing the papers and the paying over of his money? Without an escrow, the buyer can only ascertain the condition of the title up to an approximate date, necessarily a day or more prior to the actual delivery of the deed; whereas, in escrow, he has named as a condition of using his money, that the title be in a certain condition, *in his name.* This is entirely fair to the seller, because, if his title complies with the conditions of the escrow agreement, and the deed is filed, he is at once paid the money by the escrow agent.

2—The buyer has the advantage of raising part of his purchase price by mortgaging the real estate, and

using the mortgagee's funds towards the purchase of the property; the mortgagee being willing to deposit funds with instructions that protect him.

3—The one loaning money to the buyer of the real estate is protected in that his funds are not used until his mortgage appears on record, as a first or second mortgage, as the case may be.

4—When the escrow agreement is signed, and the funds are deposited, the seller has the advantage and satisfaction of knowing that during the time the title is being examined he is certain that the transaction will be completed providing his title is as represented.

5—The seller also has an advantage in that he may instruct the escrow agent to use the funds, which become his upon the filing of the papers, to pay off present encumbrances and liens not assumed by the buyer. In this manner, the seller is not required to advance other money to close a transaction.

6—Both parties have the common advantage of knowing that all computations of interest, rents, fire insurance premiums, etc., will be made in an accurate, careful manner by individuals especially trained in such work, the parties to the transaction thereby being relieved of these burdensome details.

7—Fire insurance will be transferred and mortgage clauses attached promptly upon the filing of the papers, which is an important matter to all parties concerned.

8—A real estate broker, who has negotiated a sale, is, according to law, entitled to his commission without any further work. The broker wishing to give his client service, and to see that the transaction is eventually properly closed may accomplish this by having the transaction placed in escrow.

The seller should be certain that the escrow agent covers the question of means in which the consideration is accounted for; the giving of a warranty deed, which in no way warrants inconsistent with the title; that the proper cancelation of liens against which he warrants is provided; the return to him of any land

contract, which may be outstanding, to either the present buyer or someone else, so that he has no outstanding obligations to convey, which he has not, or cannot comply with; that definite understanding is made as to the date of possession to be given, and the rental the seller is to pay if he remains as a tenant in the property.

The buyer is interested in seeing that all taxes and rentals are properly pro-rated as of a date agreed upon; that the mortgages he has agreed to assume can be assumed; that the mortgages are not in default, and whether they can be paid on or before maturity; and, last but not least, that he is given a proper title opinion by a responsible company that the title is good in him, subject to the things he assumed.[1]

Real estate brokers in most cities where adequate facilities are afforded now escrow practically all of their deals. In Los Angeles it is estimated that ninety-five per cent of all deals are closed in escrow. In eastern cities, the percentage is less, but is increasing from year to year.

The investor in real estate, to be thoroughly secure in many intricate matters of a highly technical nature, should insist that important transactions, at least, should go through escrow when they are being closed.

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(1) A pair of statements, showing how disbursements are made by an escrow agent in a typical transaction, may be found in the addenda of this volume.

CHAPTER 12

EVIDENCES OF TITLE

Determining if the title to a property is sound—Different ways employed—Primitive methods of transferring ownership in land—Deeds came into existence later as written instruments—Four methods of evidencing title—Definition of an abstract—Service rendered by title companies in cities—What a certificate of title really is—Title insurance and its purpose—The Torrens system of land registration—Competent legal aid advised—Purchaser should be more interested in the title to land than in the land itself—Marketability of a title is important—Investor should not buy real estate without a thorough investigation of the title being made

Since the value of real estate, from a commercial point of view, depends upon its marketability, it is essential that the investor in real estate know something about the different methods of evidencing title thereto.

In the nature of things there must be a difference between the methods of evidencing title to personal property and to real estate. Ordinarily, possession is the only evidence of title demanded of the seller of personal property, but since the possession of real estate is not necessarily evidence of ownership, it has been necessary to devise a system of tracing titles to real estate, based not upon possession, but upon a careful examination of the public records.

We are apt sometimes to smile in a superior sort of way at the primitive ideas of our ancestors; and those who may have read in Blackstone, or other books on the history of real estate law, of the quaint custom known as "livery of seizin" have doubtless had many a quiet chuckle at the expense of our ignorant forbears. And yet this seemingly meaningless procedure had its inception in the fundamental distinction between land and personal property, and a recognition of the fact that the transfer of land cannot, of necessity, be as simple as the transfer of a chattel.

Briefly, the ceremony of "livery of seizin" was this: If "A" desired to sell his farm to "B," he called in his neighbors, and in their presence as witnesses, he took a twig, or branch, or a piece of sod and gave it to "B" as a symbol of the transfer or ownership. No deed was made and no record of the transaction

was preserved, other than in the memory of the witnesses. Primitive as the method seems to us, it was the best that could be devised at a time when few could read and write, and at a time when land was rarely sold and ordinarily passed from one tenant to another only upon death.

In the course of time, deeds, as they are now known, came into general use, and the symbolic transfer of land by "livery of seizin" was supplanted by a written instrument as the evidence of title. Even to this day there is no general law in England for the recording of deeds and other evidences of title, and in many parts of the British Isles, it is still the custom upon a transfer of land for the grantor to pass on to the grantee his original title.

Since colonial times in America, it has been the custom to record all deeds, mortgages, encumbrances, wills, proceedings on the estates of deceased persons—in short all matters that may affect titles—in some public office. In order, therefore, to determine whether or not the seller has a good title to the land intended to be conveyed, it is necessary that a careful search be made of the public records.

Formerly this work was done by attorneys, and in many smaller communities the attorneys are also abstractors of title for their clients, but in most places the work of examining titles has become a specialized business carried on by professional abstracters and title companies, which maintain elaborate "plants" for this purpose.

How shall the purchaser know whether or not the seller has a good and marketable title to the land which he has contracted to sell? The answer to this question depends largely upon the custom of the community in which the land is located.

Generally speaking, there are four methods of evidencing title to land:

1—The abstract and attorney system.

2—The certificate of title system.

3—The title insurance system.

4—The so-called Torrens system of title registration.

An abstract of title has been defined as a "short, methodically written history of the title to a designated parcel of land, containing a brief of each recorded instrument." The purpose of an abstract of title is to show the entire history or recorded evidence of title from its source to the present time, with the view of having such title passed upon by some one well versed in title law.

In communities where the abstract and attorney system is in use, it is the custom for the seller to furnish the abstract of title for examination by the attorney for the purchaser. If from his examination of the abstract, the purchaser's attorney finds the title marketable, he so advises his client. If not, he outlines his objections to the title, and it is the duty of the seller to clear up any substantial defects in the title before he can compel the purchaser to take the title.

It cannot be too strongly urged upon the purchaser that the abstract of title is merely the basis for his attorney's opinion, and that the abstract without an attorney's opinion is not an evidence of title upon which he can rely. His reliance is not upon the abstract, but upon his attorney's opinion.

Because of the fact that the question as to what is a marketable title is often an intricate question of law, and because of the fact that attorneys' opinions as to what is a marketable title often differ, there has grown up in some communities, especially in many of the larger cities, a system of furnishing not an abstract of title for the examination of an attorney, but a so-called "certificate of title," whereby the title company searches the records and furnishes an opinion upon the title, upon which the purchaser may rely without consulting an attorney.

The form of certificate varies in different localities, but substantially it is in the following form: "We have examined the title to the land described in the caption of this certificate and we find the title vested in John Smith, subject to the following encumbrances." Here follows a list of the encumbrances and objections to the title.

The object of the certificate of title is to exhibit to the purchaser the true condition of the title without setting forth in detail all the recorded instruments in the chain of title from its

source to the present time. In furnishing the evidence of title by means of a so-called "certificate," the title company combines the work of an abstractor of titles and an examining attorney, and the layman may, in most instances, determine whether or not the title is satisfactory without consultation with an attorney.

In many localities, especially in the larger cities, there has grown up a further development of the title business, known as title insurance. In discussing certificates of title, it was pointed out that a title company, in issuing so-called certificates of title, combines the work of abstractor and attorney. In title insurance the title company goes a step further and adds to the functions of abstractor and attorney, the function of an insurer.

There are many defects in titles which are not disclosed by an abstract, defects as to which neither an attorney examining an abstract, nor a title company issuing a certificate would be held responsible. There may be forged deeds in the chain of title; there may be insufficient evidence as to who are the heirs of persons who have died owning the land; there may have been deeds made by minors or insane persons, whose incapacity is not shown by the public records; there may be various real defects in title which an examination of the records does not disclose; but if the title company insures the title, it is responsible for these defects, even though the records do not disclose them. Of all the forms of private examination of title, title insurance is generally recognized to be the safest and best, although it is necessarily more expensive than other forms of evidencing title.

In recent years there has grown up in various localities a form of public evidencing of title known as the Torrens system of title registration. The theory of the Torrens system is that the title to a parcel of land shall first be established by court decree and that this court decree shall be filed in the recorder's office as a certificate that John Smith owns the land subject to whatever encumbrances are laid down in the decree. When John Smith sells the land the recorder cancels the original certificate and issues a new certificate in the name of the purchaser. Where land is registered under the Torrens system, it is always possible to go to the recorder's office and learn who is the owner of the land, and what the existing encumbrances are, without examining the chain of title from its source to the present time.

It is not intended herein to discuss the relative merits of the various forms of evidence of title. Whatever form of evidence of title is customary in the locality in which the land is situated is usually sufficient.

While it is true that in communities in which either certificates of title, or title insurance, are current, a lawyer's advice is not absolutely essential, yet it is also true that in so important a matter as the purchase of real estate it is not safe to proceed without the aid of a lawyer.

A question that often occurs to the layman is "How far back is it necessary to trace a title to show a good and marketable title in the vendor?" The answer to this question differs in different jurisdictions. The title must be traced to what is known as the "root of title." By the "root of title" is meant the title existing in some one at a time sufficiently remote to bar by force of the statute of limitations[1] and by the lapse of time all adverse claims existing at the beginning of the period of limitations including the savings clauses in favor of all persons under disability, namely minors, persons of unsound mind and persons imprisoned. In England this period has by custom been sixty years, but in comparatively recent times it was changed by statute to forty years.

In those parts of the United States where titles are derived from a government grant, it has been the custom to demand that titles be traced to the government patent no matter how remote that date may be.

Defects in title, which no search of the records would disclose, any one of which might cloud a title, or render it unmarketable, but against which, by reason of lapse of time or other reason, a title company might be justified in issuing a policy of title insurance, are noted as follows: Old unsettled estates; lack of publication of notice by administrators and executors; no formal election by widow, or widower to take under the will; ancient mortgages, either canceled or improperly canceled of record; imperfect, indefinite and ambiguous descriptions; tax titles, the validity of which depend upon the regularity of the proceedings

(1) A table showing statutes of limitntions may be found in the addenda of this book.

upon which they are based; the regularity of judicial proceedings appearing in the chain of title; the rights of children born after the execution of a will; the question as to whether a will contains apt words to dispose of property acquired after its execution and the validity of deeds executed under power of attorney.

While it is not the policy of any company to insure absolutely unmarketable titles, yet there are cases of temporarily unmarketable titles which may be insured—provided the company be indemnified by means of a bond, or the deposit of money or securities, during the process of perfecting title. Among these are: Estates in the process of administration; pending suits for money only, in the few jurisdictions where judgment dates back to the first day of the term; disputed mechanics' liens; titles in the process of being quieted by suit.

In this connection the following quotation from the bulletin of the Texas Association of Title Men is apt:

> "When real estate is bought, the purchaser should be more interested in the title than in the land itself. The land only represents so much dirt that may be bought at a dollar a load. The title represents the right to occupy without molestation, and the right to sell, alienate and devise by will—in short, the right to possession and enjoyment."

The important element in real estate as a matter of investment is the marketability of title. No matter how otherwise desirable a parcel of real estate may be, it is of no value as a commercial asset, unless it be marketable. And the essential element in marketability is the question as to whether or not the title is perfect.

Do not buy real estate without a thorough investigation of the title.

CHAPTER 13

WHEN AND HOW TO SPECULATE IN REAL ESTATE

Definition of a speculator in real estate—Types of men who engage in speculating—Eight things not to do in speculating—How speculating can profitably be engaged in—Buying and selling lots on a speculative basis—Acquiring or leasing land on main business thoroughfares—New business centers, and the opportunities they offer—Speculating in small towns adjacent to large growing cities—Street widening and extension opportunities—Value of favorable terms of payment—When has a property a speculative value?—Some elements which encourage growth in values—The psychology of the real estate speculator—Don't speculate unless you can afford to lose your money—Not as hazardous as many other forms—Speculating not a public benefit, nor a public evil—Nine things for the realty speculator to observe.

A speculator in real estate is one who acquires property, whether vacant or improved, with a view to resale at a later time, thereby realizing a profit. Contrasting sharply with the speculator is the investor in real estate who acquires property for the purpose of specific use, or to secure a market return in interest on the money he has placed in the transaction.

There may be honest and dishonest speculators in real estate, just as there are honest and dishonest operators in any other business field. It is true that the speculator in real estate may not in many instances add any great value to the land he buys and sells, yet it is quite evident that speculators exist everywhere, and it does not take much persuasive effort to compel anyone to join in a speculative real estate venture, providing it promises good returns and the would be speculator has the money necessary with which to proceed.

There are many men throughout the country who have surplus funds for ready use, who frankly style themselves speculators, and justify their actions by pointing out that by the exercise of keen vision and definite knowledge, they are able to buy real estate, often develop it into property which produces an income, and then sell it at a substantial profit.

It is not intended to here enter into a discussion of the status or value of a speculator as such. It is apparent that thousands upon thousands of men and women are speculating in real estate,

and many more desire to join them, but don't know how to go about it.

Here are a few things not to do in speculating:

1—Don't venture into speculating in real estate unless you can afford to take a chance on losing your money. Become an investor instead, and buy only such real estate as you know has a well defined value, unaffected by fluctuations of any kind.

2—Don't become a speculator unless you have studied the field in which you intend to operate. If you do not know your field, and cannot visualize its future, you may lose money. Then you won't be even a speculator—you will be a dismal failure!

3—Don't speculate in real estate unless you are familiar with the underlying fundamentals of city and country growth.

4—Don't speculate in real estate in a new and untried manner. In all probability, you will lose all or most of your money. If the speculation offered you can be tested by comparison with similar operations previously engaged in by either yourself or someone else, you will have a basis on which to compute the possibilities of gain.

5—Don't speculate on a falling market. You may have to assume carrying charges which may ruin you before the cycle turns upward again.

6—Don't speculate with anyone's money but your own. You may get into serious trouble. If it is your own money and you lose it, it isn't the business of anyone to criticise, except, possibly, your wife's.

7—Don't spread your speculations out too thinly. The way to speculate is to do so on the theory that conditions may become depressed, and you may have to carry the property through a slump.

8—Don't speculate on borrowed money. It has a way of falling due either as to principal or interest at a most embarrassing time when you may not be able to pay, and then the fat may be in the fire. Use only

your own money with which to speculate, and if you do not make the anticipated profit, it will cause no one else any embarrassment.

Having indicated some of the things not to do when you venture into the speculative field, there may be considered some of the ways in which real estate speculation may be profitably carried on. After all is said and done, few real estate speculators, if they operate sanely, lose very much money. They may not make very much at times, it is true, but if they do lose their money it is because they have violated the rules of good business in making a real estate speculation.

Granted that one is willing to assume the chances involved, where and how is the best way to enter the field of speculating in real estate?

Sometimes a safe form of speculating is in buying and selling vacant lots in subdivisions which are opening up on the outskirts of a city. One subdivision is always more advantageously located than the others, is right in the pathway of speedy development, and it seems certain that with the selling out of the property there will be opportunity for the resale of lots at higher prices. In rapidly growing cities, this is a mild and comparatively safe way of speculating in real estate.

Main outgoing thoroughfares, extending from the heart of a growing city to its outskirts, offer many opportunities for speculating as well as investment. The larger a city grows the faster it grows usually. It is amazing the manner in which outgoing radial thoroughfares develop, and property values on these streets increase. Choose a street which leads from a main business district to a high grade residential district, and then buy property on this artery linking the two. This is probably the safest and most profitable speculation the average community can offer. There may come a slump, but it is seldom, indeed, that such property recedes in value. It may remain stationary in value for a time, but later it is almost certain to advance.

New business centers developing in outlying sections are fertile fields for speculation. One successful Chicago speculator maintains that active business districts spring up along main thoroughfares about two and one half miles apart. He always goes to the farther corners of such a development, settles down

upon one or more pieces of property, and waits for the steady flow of development to roll over him, increasing his values, and making his holdings worth a great deal more money as time transpires.

Small towns in the close vicinity of large cities often offer opportunities for speculation. Of course under a program of this sort the entire territory must be experiencing general prosperity. Los Angeles has a score of small towns and cities clustering about its borders, in many of which excellent speculations in real estate have been encountered.

One successful speculator makes a practice of confining his operations to fields of this kind. He will survey a town which is close to a much larger city, ascertain that the city and towns are growing together by the impetus of each other's natural expansion. He will select a vacant property which is just outside of the high priced district, and just inside of the lower priced property beyond. He will acquire vacant land, and in a year or two he finds that the development of the town has enveloped him, his property has greatly increased in value and is readily salable at a substantial profit.

The tremendous increase in the use of automobiles has compelled the opening or widening of radial thoroughfares in many cities. These attract speculators in the early stages, because men have been keen witted enough to realize that after an improvement of this sort has been completed, the frontage values are greatly increased for business use. Before or just after the improvement is announced, a speculator with vision will be able to buy properties which owners sell at what they then think are high prices, not realizing the importance of the development which is to come. Later the prices realized by the speculators are much greater than the original owners ever contemplated, or they would not have sold. This faculty of visualizing the future is the one which permits the speculator to realize his profit.

One of the important things to be observed in speculating in real estate is to secure favorable terms of payment. Let us suppose that you have set your heart on buying a well located vacant corner lot on a good business street, and that the price asked is $60,000. An asking price is seldom an evidence of value. Owners have a habit of asking more than they expect to get, and buyers

almost invariably offer less than they expect to give. Let it be assumed that the owner is persuaded, finally, to accept $50,000 for the corner lot, which cost him $35,000 two years previous. If a payment of $10,000 cash, a first mortgage to be carried by the owner for $30,000, and a second mortgage or trust deed for $10,000 to be carried either by the former owner or some one else, can secure the lot, it doubtless will be a good buy, especially if the two mortgages do not need to be amortized, and extend for several years. Let us assume that the lot is carried two years and sells for $70,000. On an original investment of $10,000, you have made $20,000 less carrying charges in two years' time as against $1200 you would have realized if you had invested your $10,000 in a six per cent mortgage, or other security for two years. Such an increase in a speculative real estate market is not unusual when conditions are right, and times are prosperous. Remember that favorable terms are advantageous in every speculative deal, and the greater the actual burden the former owner of a property can be made to carry on a reasonable interest charge, the easier the burden will be for you. In all probability, the former owner is quite willing to carry a large mortgage to escape income taxes, and in addition he has suddenly switched from being a speculator, and has become an investor.

How can one determine if a property has speculative value? This is a revelation which will come only by a study of the elements of speculation as indicated in districts where there have been unusual rises in values. History repeats itself in real estate as in other lines, and if a similar situation arises which duplicates one in which there has been great increases in values, it is reasonable to suppose that a speculative market will follow, and there will be opportunities to buy and sell at a profit. A competent speculator is usually only a good guesser, but he bases his guess on definite conclusions and conditions which indicate that growth will be steady and constant.

There is no recognized period of time which may elapse between buying and selling in a speculative market. In one instance a turn of a property may be effected in a few weeks. In other cases, where the demand is less insistent, the time which may elapse may be some months or even years. No two speculative markets have exactly the same history. In the city of Los

Angeles, there have been times when property could be turned at a substantial profit several times in a year, and nothing thought about it. In a more conservative eastern city, a speculator may have to hold a property two or three years before he realizes his profit, and even then the accomplishment may be looked upon as phenomenal.

Inherent elements of growth, such as the entrance into the territory of population, must accompany the most active types of real estate speculation. Thus, in boom towns where large numbers of people are coming in every month or season, there is nearly always an active speculative market. If the population of a town or city is not increasing rapidly, there is little incentive for rapid turns in property, and the speculative element is often absent.

Is real estate speculating dangerous to the operator who participates in it? If safely engaged in, and with an amount of money at hand necessary to carry the property if the market slumps, it carries with it no greater risk than the buying of any other commodity. Nearly every loss sustained comes through the inability of a speculator to meet payments in principal or interest. The "shoe string" speculator gets burned very often, and he has no one to blame but himself. The "shoe string" speculator is one with a comparatively small amount of money, who assumes obligations which call for future cash payments and carrying charges, and who is unable to effect a sale of the property before payments come due. This sort of operating cannot be condoned, and the speculator often gets what is coming to him. He, for the most part, is a gambler pure and simple. He bets on his chance of finding a buyer who will pay him a profit. If such a buyer fails to appear, the supeculator loses his stake. He usually goes into the deal with that possibility in view, and, if seasoned, he usually has less to say about his loss than others who learn of it.

Everybody is a speculator at heart, and it is not surprising that this field attracts a lot of people when conditions so formulate themselves that speculating can be engaged in. Real estate speculating differs in form from other kinds in that the commodity is a much more stable one than speculating, for instance, in grain or oil. If the speculator guards his investment by having

enough money to carry through to a time when the property may be sold at a profit, he need never lose a penny, although his profits may not come as soon as he hopes for.

Can speculation be recommended to those fortunate persons who have surplus funds drawing low rates of interest, or tied up in securities, which render only moderate returns? If properly conducted and reenforced with a liberal knowledge of how to judge property values, and the elements of community growth, there seems to be no reason why anyone's money should not be placed in properly located tracts of real estate, the idea being to resell at some future time at a substantial profit. Thousands upon thousands of shrewd business men in all parts of the country have been doing this for many years, and many have reaped large fortunes as a result. Some who have had neither enough money or the necessary knowledge have lost money, but usually they have violated the important principle that the speculator must be ready to hold his property if a ready market is not at hand. Doubtless the percentage of those who lose is very small, indeed, in comparison with those who gain.

There is an essential difference between speculators in land, and those who manipulate, for instance, foodstuffs. No one suffers particularly because there is an active speculative realty market in one part of a city. Improvements usually follow, and the district builds up. When a food commodity is cornered, it may cause suffering among a great mass of poor people. This never occurs when real estate speculation is rampant, for the owners of real estate are not in that class of the country's inhabitants. A speculative territory may subside, but it seldom recedes.

Real estate speculating is not to be particularly recommended as a public benefit, neither is it to be condemned as a public evil. It resolves itself largely into the nature of a game, to play which one must be properly financed. Granting the game is played in the way it should be, there is better than an average chance that the result will be the accumulation of substantial profits.

In speculating in real estate, it is well, then, to observe these conditions:

1—Have courage. Take a chance, but don't take a risk. You may take a chance that when you buy a property you may have to carry it a considerable time before realizing a profit. You take a risk when you operate on borrowed capital, or are not able to carry on if the anticipated sale does not materialize.

2—Buy on a rising market. Markets have a way of rising, remaining static for a time, and then falling. Learn by observation or from expert advice when is the proper time to buy.

3—Sell when you can realize a good profit. No one ever got into trouble taking a good profit on a deal, even if one does give the other fellow a chance to make some money.

4—Don't buy at the place where prices are at peak, nor too far out where the demand will not make itself felt for some time. Settle down in between these points, and then wait for that magic element, increment, to get in its fine but satisfactory work.

5—To be a good lawyer, doctor, or minister, one engages in years of preparation. Don't expect to be a successful real estate speculator or operator unless you know the fundamentals of the real estate business. Become a student of real estate, read every book you can secure, and become familiar with underlying fundamentals of movements in land, and the growth of cities.

6—Take a loss, if you should encounter one, philosophically. Because one fish gets off your hook, it doesn't mean there are no more fish in the pond. By the same token, it is better not to put all of your bait on the hook until you become a skilled and seasoned speculator. Even then it may be a dangerous practice.

7—It is usually wise to confine your speculations to one class of property. Learn all about its peculiarities, and don't venture rashly into new and untried fields, unless under competent direction of one who knows the new field.

8—Engage in speculation as a sideline. Don't expect to make it a regular occupation, for there are often months at a time when it is not a profitable venture to engage in.

9—Become a speculator with your eyes wide open, fully aware of the benefits and burdens of such a calling. If you fail, don't blame anyone else. Just quit the game and become an investor. It is an infinitely safer field in which to operate.

CHAPTER 14

LAND, SUBJECT TO A NINETY-NINE YEAR LEASE-HOLD AS AN INVESTMENT

Leaseholds unfamiliar to many investors—Some historical facts about long term leases—Definition of a long term lease—Reason why leases are for ninety-nine years shrouded in mystery—Leases should be taken only on property which is reasonably certain to increase in value in the years to come—A typical set up of a good lease—The bond required—Seven advantages accruing to the owner of land to have it held by a responsible lessee for a long term—Modern leases differ from those of the nineteenth century—Tax free feature advantageous to a land owner—Answers to many problems which face the land owner who is asked to lease his property for a long term.

To many persons ninety-nine year leaseholds are practically unknown, and are shrouded in mystery. Only in the larger cities have they been employed as a means of securing control of property which subsequently has been developed to its highest use, and for its best revenue producing purposes.

Long term leaseholds have been known since before the Christian era. Early Roman emperors claimed personal possession of all the land in their kingdoms, but being unable to use it themselves, they established a system of leasing, which is a counterpart, in some degree, to the one which exists today. They apportioned it out among a few favorites, who in turn leased it to others, thus establishing a system which has come down through the ages. During the baronial period in England, the system was widely employed, and even today the King of England is legally credited with being the owner of all land, and possession in one form or another is granted by favor of the crown. The king himself owns many ninety-nine year leases on English property, and derives huge revenues from them.

Lord Baltimore introduced the practice into America when he received most of the State of Maryland as a grant from the British crown, inaugurating the system of leasing, which today is followed extensively in that and neighboring states.

A lease for years is a binding contract between an owner of land, called the lessor, and a tenant, called the lessee, for a recompense by rent or other considerations on the one side, and

the possession and profits of lands and improvements on the other.

Mystery surrounds the reason why such instruments of possession ordinarily cover a period of ninety-nine years. References in old English books on leases indicate that the term represented "three lives," or three generations, and it is presumed that there may have been restrictions placed on making leases for longer periods than ninety-nine years, although it is a well known fact that leases for 999 years have been made in England. Legally there is not now, in either America or England, any reason why leases cannot be made for any length of time, except in several states of the union, where restrictions have been imposed, providing shorter lengths of time.

Long term leases are not recommended on property which is not located on main business thoroughfares in actively growing cities where values are reasonably certain to advance in the years to come. Until a city reaches a size of 25,000, or more, there is often uncertainty as to where the main business district will permanently anchor itself, and in which direction the tendency of growth will be. Property values, too, are low. Consequently few leases are made in small cities. As a community approaches the 100,000 population mark, and extends far above it, land begins to assume such a high value that it is frequently difficult to find sufficient purchasers having funds to buy it, and proposals are entertained that it be leased for a long term to those who will properly improve sites with buildings befitting the locations.

Assume, for instance, that a property has a frontage of fifty feet on the main street of a city, and the appraised value of the land is $2,000 per foot front, or a total valuation of $100,000. With proper safeguards, the owner agrees to execute a ninety-nine year lease, charging the tenant a rental of $6,000 per year, which is a six per cent return on the valuation of $100,000. Six per cent is generally recognized throughout the country as the capitalization rate on which a long term leasehold is made, as it represents the going interest rate on money, and, in all probability, will so remain for the term for which the lease is made. In some localities, of course, leases are made on a five or seven per cent basis. In some states, leases may be made for ninety-nine

years, renewable forever, at a stipulated rental, usually that in effect in the ninety-ninth year of the original lease.

When a lessee or tenant assumes such a long term lease, he usually is required to post a bond with a suitable trustee, agreeing that he will maintain an existing structure, or improve the property with a new building within a period ranging from five to ten years. The bond usually is equal to at least two years' rent and taxes, and the improvement is usually calculated as being of a value equal to at least five times the annual rental. If the tenant fails to erect a building, and neglects to secure an extension of the time in which to do so, he forfeits his rights in the leasehold, and surrenders the land to the owner, together with the bond which becomes forfeit, due to his failure to live up to his contract.

In the larger cities throughout the country, long term leaseholds are becoming quite common, and are useful vehicles for building up business sections. The lease instrument itself covers from twenty to fifty typewritten or printed foolscap pages, and usually contains about fifty covenants or agreements designed to insure both lessor and lessee proper legal protection in the carrying out of the contract.

The ownership of land, suitable for long term leasing, has come to be regarded as one of the best forms of investment in real estate, particularly where large sums of money are involved. Large estates, colleges, institutions of various sorts with endowment funds to invest with safety, individuals who desire to create secure estates for dependents, now look with favor on long term leases as a medium to invest funds.

Among the advantages to a land owner of this type of investment are:

1—Expensive land sometimes will not attract a ready buyer, but the owner does not desire to part with it, and is disinclined or unable to improve it. By leasing it with adequate security furnished, the owner is able to reap an immediate return.

2—He is relieved of paying all taxes, except federal income and succession taxes, as it is invariably stipulated in such a lease that all but such taxes must be paid by the lessee or tenant.

3—An estate cannot be dissipated, as it must remain intact, and cannot be sold, except upon definite agreement with the lessee, who usually has the right to purchase the fee between the tenth and fifteenth year at an amount equal to the capitalized rental.

4—Old estates, which possess sentimental value to their owners, can be retained in a family's possession indefinitely.

5—Leasing is comparable to an owner receiving the full market price for his land, and then re-investing it at six per cent, with taxes paid, with his own land remaining as security, plus a bond from a lessee to erect a permanent improvement, which will furnish adequate security for the payment of rentals.

6—If a valuable tract of land is sold outright, the government exacts a substantial tax on the sale. If a lease is executed instead, no taxes need be paid except taxes on income received unless a lessee at a much later date exercises an option to purchase it, at which time it is possible to reduce the lessor's tax by means of an amortized form of mortgage, which spreads payments over a period of years.

7—As a means of disposing of an estate, so that the income will become available for the use of a widow or dependent children, land held under long term lease is an ideal investment. With all of the safeguards now incorporated in long term leases, and with a bank acting as a trustee for the disbursement of the income derived no fear need be entertained as to the wishes of an owner being properly carried out after his death. The leased property cannot be sold, or funds speculated with under an ironclad legal arrangement of this kind.

Modern long term leases are quite different from those made in the nineteenth century, or prior to that time, in England and in some of the eastern states. Modern leases usually carry with them a bond providing for the ultimate erection of improvements on the leased property, which, of course, adds to the security of the entire investment. If such improvements are not forthcoming, the bond is forfeited.

A ninety-nine year lease made by a property owner to a responsible tenant is essentially an investment, and contains absolutely no element of speculation whatever. A definite rental is stipulated, and the income derived can never be increased from that agreed upon when the deal is entered into.

Many realtors, bankers and attorneys, acting in a confidential capacity for clients, now recommend fees under ninety-nine year lease as the best type of investment in real estate that can be offered. Such leases have been made for half a century in large American cities, with no loss entailed. Even should a lessee fail to perform all the provisions of the lease, and his bond is forfeited, in almost every instance the property has increased in value, and the land can be leased again to a new and more responsible person, probably at an advanced rental over that originally secured.

The tax free feature of a long term leasehold makes it additionally attractive to many persons who have substantial incomes. It is true that federal income taxes must be paid on the rental returned, but all land and improvement taxes are always paid by the lessee as part of the bargain for securing a 100 per cent loan with which to gain control of the future use of the property involved.

In some of the large cities throughout the country, the most valuable land in the central business district is now under ninety-nine year lease, or is being placed under lease as the opportunity permits. Much of the downtown sections of Chicago, Cleveland, Los Angeles, Pittsburgh, Columbus, and other cities, is now held under this form of tenure, and the practice is spreading rapidly to other cities throughout the entire United States.

If, at a time after the lease is executed upon land which is clear of mortgage indebtedness, it is desired to borrow money on the fee, it is quite possible to secure a substantial loan, subject to the leasehold on the property, which should be always the first lien. This is done by the person or bank loaning the money on the assumption that land with a lease on it is better security for a loan than if it were not encumbered with the lease. Nothing can remove the land, and little can be done to undermine its value. The worst that can happen is for the lender to assume possession of the land subject to the lease, which, in all probability,

is paying six per cent return on an amount equal to at least double that of the loan. No difficulty would be found in selling such a tract of land at a very substantial profit to the lender. No owner of a fee bringing in a regular return of six per cent is going to default on the payment of a loan obtained on such security, therefore the element of risk to the lender is comparatively small, and much less, indeed, than if the property had no lease upon it. Many such leases are offered as security for loans, the lease rental being used to pay interest charges upon funds which the land owner borrows for other purposes.

It happens, sometimes, that an owner desires to sell the ground on which he has placed a ninety-nine year lease. This is easily accomplished as the investment offers as much of an attraction to others as it did to him. It need not be felt that the placing of land under ninety-nine year lease precludes the owner's securing a cash consideration for his land, provided, at some future time, he desires to sell it.

The question of a proper bond is an important one. If the lessee is a bank, a large business concern, or an individual of unquestioned financial rating, the lessor may accept a bond furnished by a surety company, or, in some cases, even a personal bond. In most instances, however, the bond consists of a deposit with a bank or trust company of securities equal in value to the amount of the bond stipulated. These deposited securities must always be kept at par, so if it is necessary for the lessor to foreclose on the bond, the securities can be sold for an amount of cash equaling the amount of the bond itself. The lease instrument specifically indicates how the entire transaction is to be handled, and the trustee is paid a small annual fee for watching over the matter. This fee, as all other charges, is paid by the lessee or tenant in most cases, although it may be divided if the lessor and lessee so agree at the outset.

It is always a provision of a lease that when the time comes for the erection of a building on leased premises, the bond is released to the lessee upon completion of the structure free and clear of all liens. Very often the income derived from the sale of securities deposited with the trustee as a bond are applied upon the final payments for the building, which thereafter represents the security for the payment of rentals by the lessee. If the les-

see defaults after the completion of the building, and fails to cure the default within a specified time, then the building itself reverts to the lessor, and the lease is canceled, wiping out all the lessee's rights in the property. This, of course, seldom, if ever, happens. If it does happen, the lessor is immeasurably ahead in the whole transaction.[1]

To the business or professional man who is interested primarily in creating and building up a substantial estate for the use of himself and his dependents the acquiring of business property and placing it under long term lease is earnestly recommended.

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(1) This entire subject is very fully covered in "Long and Short Term Leaseholds" by Stanley L. McMichael, published by The Seanley McMichael Publishing Organization, Realty Building, 1222 Prospect Avenue, Cleveland, O. 270 pages. Order direct for $4.

CHAPTER 15

NINETY-NINE YEAR LEASES AS INVESTMENTS

What a lease offers the investor—What the owner agrees to do and what he aims to receive—Use the essence of land values—Leases becoming increasingly popular in cities where land values soar—Benefits to the lessee—Advantages of leasing over buying—land—Leases should be taken on an investment rather than a speculative basis—Merchants learning the advantages of leasing for long terms—Danger of leasing land, together with improvements thereon—Land can be leased when it cannot be bought—Operator should understand the fundamentals of long term leasing before entering this field.

If you were interested in securing possession of a certain tract of ground for use in your business, and the owner of the land offered you the land at a satisfactory price, but demanded no money payment for it, simply asking you to pay him for a stated period of time an amount of money equal to the interest on the sum which you would otherwise invest in the property, what would you do? Naturally you would accept his offer. In doing so, you would be taking a long term lease on the property, and follwing out the basic principle underlying such contracts.

"Here is my land," the owner in effect says to you. "Take it, improve it, and use it for ninety-nine years. Pay me in rental a sum of money equal to six per cent on its value. Of course, until a building is erected to serve as security for the payment of rent, I shall require you to give me a bond equal in amount to at least two years' rent and taxes. I don't want your money. In fact, I want to loan you the full amount necessary to gain possession of my property. Just as long as you faithfully live up to your contract, the right to the use of the land is yours. We will incorporate this agreement, together with other protective features, in a ninety-nine year lease instrument, and you can proceed to use the land for your business, or any other legitimate purpose."

Is it any wonder that long term leases prove attractive to investors who can, at comparatively small expense, gain control of land in rapidly growing sections of a city?

The legal right to use land, undisturbed by anyone, is after all, the very essence of land value.

Long term leases are becoming increasingly popular in large cities where values are steadily mounting, and where it is sometimes difficult to muster sufficient funds both to buy land and erect large buildings. Fortunes have been made in this form of investment by reason of enhanced value in land, and bonuses which have been paid for leases.

The chief benefit accrues to the lessee by reason of the fact that future increment to the land belongs to him. For instance, a property having a frontage of 100 feet, worth $1,000 per foot front, leases for $100,000, with a rental of $6,000 per year. It is not improbable that in from five to ten years, the property reaches a value of $2,000 per foot front, showing a profit of $100,000. The tenant, if he desires to do so, can sub-lease the property for $12,000 yearly, pay $6,000 a year to the original owner and go to California and live comfortably on the other $6,000 he receives annually as income. If he does not desire to sub-lease, he may sell his interest in the original lease for $100,000, and if the property is actually worth $2,000 per foot, he will have little difficulty in getting that sum.

Values in business districts in cities have a way of bounding upward within a very few years. Property owners who do not wish to wait for this increment, or who are unable or disinclined to finance improvements, often are willing to lease their land, and let the investing lessee reap the accumulating benefits.

It is true that the lessee has to pay taxes and other carrying charges on the land, but if it is located in a growing territory, it has a way of paying out handsomely. If the land is not so located, it should not be taken under long term lease.

The ability to use borrowed money honestly and skillfully often represents the chief factor in the success of many men. Under a leasing arrangement one has the opportunity, by simply furnishing an adequate bond, of gaining control of valuable land which can be properly improved, and made to pay handsome returns.

There is a decided advantage in leasing land rather than assuming a financial burden in buying it outright. In times of money stringencies mortgages have a way of falling due when an owner is least able to meet the obligation. If the mortgage is defaulted the land owner is likely to lose his entire investment.

If he could cure his trouble by simply continuing to pay the required interest, his difficulty doubtless would be greatly minimized. This, of course, is exactly what the lessee does with a ninety-nine year lease. As long as he pays his rent regularly and lives up to the other less important covenants of his lease, he remains firmly in possession, and nothing can dislodge him, or prevent him from enjoying the use of the land or whatever increment comes to it.

If vacant land cannot be reasonably expected to increase in value to the extent of at least ten per cent per year, it seldom should be considered a fit subject for long term lease unless it is adequately improved at an early date. There is a set charge of six per cent on the land's original value, plus taxes, which probably amount to two per cent, making a total annual outgo of eight per cent. A margin of two per cent a year certainly cannot be considered very much of a profit to make on the investment. In many cases it is, of course, much greater.

A long term lease should be taken on an investment rather than on a speculative basis. The best way to do this is to have some satisfactory use to which one can put the land. This can be accomplished by erecting a structure for your own use, or by promoting a building, the space in which can readily be rented at a profit to responsible tenants. With a definite outgo to be reckoned on, it is most desirable that there be a definite income with which to pay expenses. There are many tracts of land in growing cities where this can be figured almost to a certainty, and it is these parcels which attract the investor who wishes to assume a ninety-nine year lease.

Merchants in actively growing cities are rapidly learning the advantages of leasing property for a long term. Most business leases now are for five and sometimes ten years. Property owners hesitate to grant a longer term as they desire to participate in possible increment. If they tie their property up for twenty or twenty-five years at a set rental, they preclude the possibility of sharing in the increased values which they later may obtain. Buildings will depreciate and change in style, and when the lease expires the building goes back to the owner, and often is a cause of constant expense. By leasing for a long term, the owner gets the building off his hands while the new tenant

is in a position to spend money on improvements because he knows he will remain in possession for a time sufficiently long to permit of the amortization of the expense.

Be warned, however, against taking a ninety-nine year lease where land and building together form the capital value. For instance, a tract of land worth $50,000 may have thereon a building worth the same sum, or at least the property will rent for a sum today which may bring the owner a net return of $6,000 a year. Therefore, the owner demands that rental under a ninety-nine year lease. To accept such a proposition is hazardous in some instances, for the building may depreciate very rapidly in value, and in fifteen or twenty years it may become practically worthless. The land may increase in value, of course, but unless there is a certainty of its increasing more rapidly than the building depreciates, the proper way is to buy the building at an appraised value, allowing for depreciation and obsolescence, and then lease the land on its market value for the full term. A depreciation fund should be set aside to reproduce the capital value of the building when it must be torn down. Then the entire investment remains intact, and the lessee does not find himself in the position of paying $6,000 a year on land which may not have reached a $100,000 value. The fund which has been accumulating can be applied towards the erection of a new building.

Improved property is sometimes offered for ninety-nine year lease on an income basis that may seem attractive. Unless the building has a life of at least forty or fifty years, the project should be carefully scrutinized for the possibility is always apparent that changing conditions may require its wrecking long before the land beneath it increases in value enough to wipe out the loss which attends its passing. The income may seem inviting, but it must always be remembered that buildings depreciate while land appreciates in value. The safest procedure is to lease land, and either buy or build the physical improvements.

Occasionally it will be found that ground can be leased when it is impossible to buy it. For sentimental reasons owners decline to part with land they own, but will listen attentively to proposals that it be placed under long term lease. Gaining possession this way is advantageous to the lessee, and land

which otherwise might continue to lie idle becomes the subject of immediate improvement, and is made to pay its way. Choice parcels of property are in this way put under lease to investors who reap substantial increment as time progresses.

One should understand the fundamentals of long term leasing before engaging in such operations, or should secure the assistance of a competent realtor who makes a specialty of this kind of business. There are many safeguards to both lessee and lessor, which should be incorporated in a modern ninety-nine year lease. Any document which is to control the destiny of an expensive piece of property for a century or more should contain every possible safeguard which is fair to each side concerned.

To summarize:

1—A long term lease is a good investment if the rental paid represents a fair capitalization of the present market value of the land.

2—The lessee benefits by his ability to control the land for a long term and be assured that he can amortize the cost of improvements which may be added to the property.

3—The lessee gains through possession of increment which comes to the land, which should be located only in such a territory as may reasonably be expected to increase in value in the years to come.

4—If the land is improved with some kind of a building, the land may be leased, but the building should be purchased at a price which may be amortized over a given term of years.

5—A lease on land which has substantially increased in value may be sold for a cash bonus, or the land may be subleased at a higher rate of rental return. In large cities where leased land has greatly increased in value, sublease may follow sublease many times.

6—Leasing should be entered into with a full knowledge of existing conditions, which should warrant a steady increase in values over the term of the lease.

CHAPTER 16

HOW THE REAL ESTATE BROKER CAN SAVE YOU MONEY

Definition of a broker—How brokers create business—The broker is the investor's best friend—Six suggestions concerning the relationship which should exist between an investor and a broker—Difference between a client and a customer—Selling real estate a complicated business, requiring education and high ethical standards—Broker must have infinite patience—Must expect disappointments—Advise with a broker and be guided thereby—How the broker can save you money—Check the broker's advice and recommendations—Dangers of buying real estate direct from an owner—Ten things to remember when dealing with real estate brokers.

A real estate broker is one who engages himself for a commission consideration, to represent sellers and buyers in the transfer from the former to the latter of property in which the broker has no financial interest.

If it were not for the trained broker realtors of this country many of the real estate deals that take place would never come into being. Through knowledge of property values, experience in negotiating transactions of all kinds, and a readiness to act as a fair minded agent between buyer and seller, brokers actually create most of the real estate business that transpires from day to day.

Buyers would have a hopeless task searching about for properties which meet their requirements, while owners would be at a loss to find purchasers, and, having found them, to present properties in the best light, and then follow through with the complicated problems which surround almost every real estate transaction.

The broker is the investor's best friend when dealing in real estate, just as the doctor's ministrations are keenly appreciated when one is ill. Instead of ignoring brokers when desiring to buy or sell real estate, it is the wisest plan to develop the friendship of one in whom you can feel full confidence, and then deal through him whenever possible. If he appreciates his calling, and really senses the duties of a realtor, such a broker will save

you money in buying a property, and secure a better price when selling real estate.

In the addenda to the code of ethics of The National Association of Real Estate Boards, adopted in June, 1924, at Washington, the following suggestions were made concerning relationship of the public to brokers generally:

> 1—Your relationship with a real estate broker should be considered confidential; it is unfair to a broker for you to quote to others the terms and properties which he has offered you in confidence.
>
> 2—Competent counsel in connection with real estate transactions is valuable and proceeds from years of training and study; it should not be expected gratis.
>
> 3—By retaining the services of a single broker and placing your confidence in him, you enable him to render you most intelligent and satisfactory service.
>
> 4—Do not injure your property nor your broker's chances of serving you by quoting one price to the broker and another to a prospective purchaser.
>
> 5—Do not list your property unless you are willing and ready to sell it.
>
> 6—When you ask a realtor for an opinion, you should expect it to be rendered in accordance with his best judgment, unbiased by your personal preferences.

It is further pointed out that the term "client" is used to denote one who retains a realtor to represent his interests in real estate matters, while the term "customer" is used to indicate one who transacts business with a realtor, but does not necessarily retain his services.

A real estate broker, as such, has nothing to sell but service, although he may have many listings and facilities which will be used as the medium for the exercise of complete service.

There are few businesses which are, after all, more complicated than the selling of real estate on a brokerage basis. The wise broker realizes that the more he learns about real estate, the less he actually knows about the great, wide field which he is constantly studying and exploring.

A broker, above all other things, must have infinite patience. He must handle those persons with whom he comes in contact, whether clients or customers, with the greatest diplomacy, tact and consideration. He must know much about many phases of real estate, and must be ready instantly to furnish solutions to the perplexing problems which are constantly projecting themselves into his business life. If he doesn't know, offhand, every fact necessary, he must have means of finding out. He must be a student of real estate affairs, constantly alert in knowing of the newest and latest ideas which constantly are cropping up or developing in connection with his activities.

The broker must be prepared to accept many disappointments. Deals which look rosy may be wrecked over matters which seem trifling and unimportant. Details or complications suddenly project themselves into a situation which results in one or the other party to a transaction becoming disgruntled, dissatisfied or merely disinterested. Sellers frequently are avaricious and greedy for undeserved profits, while buyers are sometimes niggardly, and refuse to pay fair prices for property. It is said that the average real estate broker works on twenty-five deals to one that he actually closes, and for which he collects a commission.

Few persons possessing practical common sense attempt to buy or sell stocks or bonds except through a duly accredited stock broker, one who usually is a member of his local stock exchange. Stocks and bonds, however, are usually bought in much smaller units than the consideration represented in the average real estate deal, yet, sometimes a person who always buys his stocks and bonds that way blandly believes that he can go into a complex real estate market, select a property and buy it without expert advice of any kind. The fact that real estate is inherently safe as an investment is perhaps the only thing that saves many such adventurers from suffering loss.

How much better it is, then, to be guided in real estate activities by a competent, trustworthy broker who can point out the pitfalls to avoid and smooth the way in negotiations which have a way of getting hopelessly snarled when buyer and seller come together directly.

There is a psychology about operating through a real estate broker that manifests itself at some point in almost every deal. Through intimate knowledge a broker can point out the advantages or demerits of a property, he can keep the contracting parties off the rocks of personal and persistent arguments, and by skillful presentation of facts and figures he can bring to fruition many a deal that otherwise would end in an expenditure of useless effort. A broker usually earns every cent of compensation which comes to him as the referee in real estate transactions.

There seems to be a popular notion that a real estate broker can be called on for information and advice, without any monetary consideration being given for such service. A lawyer or a doctor, of course, will render a bill for such service, and it is usually paid. With the broker, however, the idea still prevails that he should be a good fellow, and give everyone the benefit of his experience without any consideration. This, of course, is grossly unfair, and gradually this condition is being changed, and the business of dealing in real estate is being placed on a higher business plane than ever before in the history of this country.

It is interesting to know that many real estate brokers themselves, when buying or selling on their own account, almost invariably operate through other brokers whom they employ to represent them. A broker who is constantly in touch with the business knows that to operate through a competent associate is good business, and that he makes more money in that way. This is not done for the same professional reason that doctors do not treat themselves or their immediate relatives, but because the broker who is buying or selling on his own account realizes that he can deal with a buyer or seller through a third party more advantageously than he can directly.

The average investor knows comparatively little about the fundamentals which underlie the purchase and development of real estate. He ordinarily does not know the time to buy, and knows little or nothing about the mechanics of negotiating or closing a real estate transaction. He learns, perchance, that there is an active market in some section because a friend bought a tract of land there, and sold it at a substantial profit. He often does not realize that the time to buy may have passed, but

rushes in and purchases recklessly just because others have done so. It is the broker's business to know what is going on in his own particular field. He knows where to look for good investments or speculations, and having once assisted a client in acquiring a likely property he knows when and how to offer it for sale so the largest profit may be realized. He is the doctor and lawyer of real estate all in one, and if he is worth his salt he can make himself invaluable to any investor whose confidence he holds.

The fact that you are operating through a broker does not mean that you must blindly accept every statement he makes or fact he may bring to your attention. If he is competent, he can prove his case through his superior knowledge of the field in which he operates. You are at perfect liberty to exercise your own judgment in conjunction with his, and if he does not render the service you seek, you are under no obligation to continue your relations with him. In the maze of technicalities which surround the real estate business, however, you are certain to fare better if you have a capable guide.

There is an interesting psychological change that comes over an owner of a property when a buyer goes to him directly to purchase a property.

"Aha!" chuckles the owner to himself. "This party wants to buy my property. There must be something about it that he especially likes. Here he comes running after me, asking me to sell to him. Here is my chance to realize a fat profit," and the owner immediately boosts his price to such a point that the buyer suffers under the handicap of getting the seller down to a normal level before matters may progress. In all probability, if the owner assumes this attitude the buyer labors patiently for a time, then gets angry or disgusted, and the deal is declared off. If there had been a capable broker in the transaction, he probably would have gotten the parties together on a fair basis, and a sale would have been recorded.

The moment a buyer evinces direct interest in a property, it is a signal to the owner to begin angling for the highest possible price he can obtain, regardless of the value of the parcel involved. Constantly there are instances coming to light which indicate that buyers when dealing directly with owners pay

higher prices than those listed in real estate offices in the same community.

A broker, however, approaches the owner who is not able to bluff as to the value of his holding. An owner, in any fair minded broker's opinion is fully entitled to a fair profit but not an exorbitant one. If the owner wishes to sell, the broker is able through his knowledge of prevailing conditions, to ascertain whether the price is fair. If it isn't a fair price, no self-respecting broker will bother further with the listing unless a reasonable price is finally quoted. If it is fair the broker can always obtain for a buyer the best price and terms on which the property can be acquired. Witness the presence in every community of able, conscientious, successful brokers who are performing real service for their clients. If they were not doing so, they would soon disappear from business.

"Next to religion there is no subject a certain type of man thinks he knows more about than buying and selling real estate," said an old, experienced broker recently. "We brokers come in contact with this class of men constantly. It is amusing, and often pitiful, to see the difficulties such persons get themselves into, whereas by dealing through a competent authority on real estate, they might save themselves considerable trouble, and often much money."

It is a broker's duty to himself to build up a clientele. Either through himself or his salesmen he should be in touch with owners and investors, bringing them together for the purpose of making transfers of real estate. Owners, especially those who are not compelled through circumstances to sell their property, are often unreasonable as to price, believing they own the one parcel of land which is worth more than all others in the neighborhood. Such an owner must be shown what the market values are in his territory, and the fact plainly pointed out that if a deal can be hoped for, the price he quotes must compare within reason to those being paid for similar properties. Buyers, on the other hand, sometimes have a queer notion that there are many "bargains" in real estate. This is a more or less foolish idea, as cities where real estate is advancing in a way to make it an attractive investment seldom have many properties which can be purchased below market value. There are what brokers term "good buys,"

which will, with a reasonable amount of time allowed to transpire, show a fine profit. In knowing the tone and temper of the real estate market in various sections, the real estate broker is in his own element, and able to give competent advice to those who are seeking to invest their funds.

Here are a few things in dealing with brokers which a real estate investor should consider:

> 1—A broker is worthy of his hire. He has expert knowledge to place at your disposal which will save or make money in buying or selling.
>
> 2—Do not deal with other than an accredited broker, preferably a certified realtor. Irresponsible real estate men are just as dangerous in an investment way as medical quacks or shyster lawyers are in their respective lines.
>
> 3—Give your broker your full confidence. Do not compel him to work in the dark as regarding your intentions. Rely on his good judgment to work out a profitable transaction for you. Be frank and honest with him.
>
> 4—Do not attempt to play one broker against another. In all probability, you will be the chief sufferer if you follow such a policy.
>
> 5—Do not haggle over paying commissions which have been honestly earned. Nothing is so discouraging to a broker who is trying to serve you faithfully. If he is a self respecting man, you probably will lose his services thereafter.
>
> 6—Remember that you engage a broker to represent you because he knows more about the business than you do. Make him prove to you that his advice is sound, but don't repudiate it and do something different.
>
> 7—Treat your broker, if you have full confidence in him, as an ally, and he will bring to you the choicest offerings he has, often giving you the first opportunity to make substantial profits in your dealings with him. The successful broker thrives on "repeat orders."
>
> 8—If you are a new investor in the real estate field, and do not know a broker handling the kind of property

you seek, ask your local real estate board to recommend a suitable person with whom you can discuss your problems.

9—If you desire to buy property at some distant point, and need assistance, deal through your local broker, who, through his board affiliations, can establish proper contact by getting in touch with a reputable broker in that field to look up the kind of property you want, and submit locations, prices, and terms. Such inter-city relations are carried on constantly between real estate brokers, and elements of confidence are established by following this procedure.

10—Do not accept your banker's or your lawyer's advice on real estate matters in preference to your real estate broker's opinion. He, through training and experience, is more competent to serve in his particular field than anyone else.

CHAPTER 17

OPERATING IN REAL ESTATE

Creative genius always in demand—Operator lives by his brains—Plans and erects buildings for general use—How the operator has come into his own—Foresight and imagination necessary—The way to gain knowledge and experience in operating—Examples of operations which have proven successful—Where and how the operator looks for opportunities—A unique theater promotion—Rehabilitating old buildings—Various uses to which land in rear of business streets may be put—Summer resort and golf club promotions—Skilled operators seek to use every square foot of a down town area—Importance of financing operations—Eight things an operator should observe.

Creative genius commands the greatest price paid for the efforts of men in life's work. The reward to the individual possessing this rare characteristic who uses it properly is not only sure and certain but also commands favorable recognition from everyone. The opportunity for demonstrating this genius is to be found in every field of endeavor. It may be an inventor who presents the world with a useful invention, or one who directs his energies to the development of new ideas in social service. Often it may be a business man who by reason of his foresight is able to promote or conduct a commercial enterprise better than his fellows, instilling new ideas which force the business to the front.

The creative genius in the real estate field finds his best opportunity in the development of properties which he may acquire either for himself or as the promoter of a syndicate of investors. He may be fortunate in possessing enough capital to enable him to conduct his operations alone. More often his unique ability will produce the rewards which by careful investment grow until he himself becomes a capitalist able alone to command large resources.

The broker who represents the buyer and seller and unearths opportunities for realty investment often stands as a genius, but usually his training and function requires him to serve as an intermediary and to act solely for others. The owner of capital is often satisfied to let his money work for him, relying upon the ability of others to make it increase. But the operator lives by his brains; his foresight and ingenuity furnish the incentive which

creates out of a rough vacant area a new business center, or causes land formerly unused to develop into a use wherein it not only serves the community and fulfills a definite need, but also provides satisfactory profits for the operator.

Operators who plan and erect buildings help develop cities and increase the desirability of the locality as a place in which to live. It is the operator who builds a fine theatre behind a row of stores, utilizing a worthless back area and provides thereby entertainment facilities for many thousands. It is the operator who lays out and finances new subdivisions where people may erect beautiful homes.

Today the operator in real estate has come into his own. His worth to the community is recognized. In former years he was little appreciated and often was considered unnecessary. He was often a real estate speculator, buying to sell at a profit, mortgaging his all to erect a building, always facing discouragement from his friends who frankly laughed at him, unable to see the vision of a great venture which spurred him on to high endeavor. Operating is now a recognized business worthy of the best talent available.

The essentials for successful operating in real estate are foresight and imagination, honesty and square dealing, a thorough knowledge of the broad basic principles which underlie the growth and development of cities, with particular reference to the section wherein he intends to operate, a knowledge of the peculiarities and habits of people, and last but not least a power to attract capital to finance his enterprises. Behind it all must be sound business judgment which will cause him to steer his craft from hidden rocks which may mean disaster to his promotions.

Not everyone can become an operator. There are many who have not the essential qualifications for such a career. Likewise there are those who may have qualifications which, when properly directed, result in profitable ventures.

How is one to gain the knowledge necessary to embark in this interesting and profitable field? This can be done by a close study of the conditions as they were and are now in thickly populated sections; by watching keenly the shifting of business

neighborhoods in cities; by keeping track of the increase in population and its sources, and the increase of wealth and commerce and their sources and distribution; by endeavoring to see where history will repeat itself and anticipate it and by studying methods of financing real estate and profiting by the successes and mistakes of others. The successful operator must thoroughly know his city, he must correctly anticipate the needs of its people and then have the courage and understanding which will carry him through to a successful conclusion of the enterprise undertaken.

The city, for example, may be in need of a new street to connect a residential section with a business district. A close study will reveal this condition. Convinced of the need the operator will proceed to option the necessary property to extend the street, at the same time acquiring sufficient land upon both sides of the proposed thoroughfare so that when it is opened he will be able to sell as frontage upon the new street land that was formerly the rear yards of lots fronting upon other streets. He will assist in fathering the necessary legislation through the city council and when the street is opened his reward will come from providing new facilities for travel which will enhance the value of his holdings adjacent thereto and permit him to sell at a substantial profit.

In one middle western community a real estate operator visualized the need of the community for new and better places of amusement. Selecting a location upon the city's principal business thoroughfare not far distant from what was then the established retail shopping center, he obtained long term leases upon several tracts of land at prices below the values of near by land. Promoting and constructing a building containing two theaters was his next endeavor. In laying out his project, he radically departed from what was the recognized plan of theaters and built the auditoriums over 300 feet back from the property line, utilizing the street frontage for retail store purposes and affording access to the auditoriums with long entrances attractively designed and elaborately furnished. What was formerly waste land he converted into highly profitable commercial space and still had the use of the high priced street frontage for store purposes. His profits on the transaction were large and by his fore-

sight he caused others to invest large sums in new buildings nearby and soon created a new business and theater district.

Important street intersections in business districts beckon for constructive endeavor, particularly when located near a residential district inadequately supplied with neighborhood shopping and amusement facilities. Often an old building designed for a special purpose such as a church, market or skating rink will afford opportunity for a wide awake operator to remodel it for more constructive and profitable use. In one city, a former club house having a large gymnasium stood abandoned on the main street for many years until a merchant saw the possibilities of utilizing it for his particular business. He acquired the land and in turn sold the vacant land fronting on the street for enough to remodel his building and leave him a fine profit, reserving an entrance through the large modern building which was later erected in front of the old structure.

An interesting promotion on the part of another operator involved the use of land situated in the rear of commercial buildings fronting on two important parallel business thoroughfares. One of these streets, however, was about twelve feet lower in grade than the other. The operator acquired control of buildings fronting on both streets, cut through adequate entrances and then erected a "double deck" moving picture theater. The upper theater had its entrance from one street and the lower one was entered from the other. Both streets furnished patrons for this unique theater in which the same film was projected on both levels at the same time. This gave double earning power to a tract of rear land which up to the time of its improvement in the manner noted was practically valueless.

Since building costs have increased so largely during recent years there has come into existence a type of operator who makes a practice of acquiring old mercantile buildings, rehabilitating them, cutting large store units into smaller ones and greatly increasing the rentals thereby. In one city a ground floor store which was bringing $20,000 per year rentals was subdivided into nine small units and made to earn $90,000 per year. The cost of making the alterations was nominal.

Another type of real estate operator engages in the erection of apartment houses in small or large units. Financing is done

through mortgages or bond issues and the operator himself usually has very little money in the project. Many small operators in the larger cities erect one or two buildings each year and dispose of them at a nominal profit which frequently represents only a good salary for superintending the work. More ambitious schemes, of course, are worked out from time to time and result beneficially to the locality where the new enterprise is situated and, usually, to the promoter himself. Operating in this field has become a specialized business and needs careful study and unceasing attention to details. The inclination to overbuild in the apartment field is ever present and this naturally involves hazards which must be carefully considered by the investor who is attracted to this branch of the real estate business.

Some operators give attention to the erection of single homes and double houses in wholesale lots. They buy blocks of improved lots from subdividers and proceed to build up street after street with dwelling houses which are sold at a nominal but satisfactory profit. By applying the principle of "mass production—small profits" they are successful in making a good living out of the business. These men are frequently referred to as "speculative builders." They perform a distinct service in furnishing an adequate supply of housing accommodations for a class of buyers who have only small amounts to pay as their initial deposits on the purchase of homes.

A favorite plan of operation in many cities is to take advantage of the natural inclination of businesses of a similar character to group themselves in neighboring districts, or in buildings equipped to meet their requirements. Large projects have been promoted in different cities wherein special buildings have been erected for the exclusive use of doctors, lawyers, insurance agents, dentists, textile dealers, jewelry manufacturers, millinery supply firms and many other lines which find it advantageous to operate in close proximity to each other.

In these days of increasing automobile ownership many realty operators have directed their attention to supplying garage facilities in congested districts. Some unique plans have been worked out for the utilization of unused land, located in the rear of business streets, for the storage of automobiles. This land,

when once improved, earns large returns on the initial investment which is usually small.

Another use to which rear land has been placed in some cities is the construction of arcades, containing many small stores, between business thoroughfares. This should never be attempted except between two heavily traveled thoroughfares, otherwise there will be no flow of pedestrian travel through the arcade and it will be impossible to rent stores as merchants will soon find they cannot make a living. Given the proper setting, however, an arcade can be made to produce a large and profitable return.

A unique promotion by the Van Sweringen interests in Cleveland is worthy of an operator's attention. A $60,000.000 passenger terminal serving a number of railroads has been so planned that practically all the space in the huge building can be made to produce rentals, train facilities being located in the basement which has been excavated so all trains may enter at a lower level. Stores front on several of the adjoining thoroughfares, a 1,000 room hotel occupies a portion of the site and the remaining building space is designed for use as offices and similar purposes.

Important promotions have been worked out by foresighted operators in connection with summer resorts and golf clubs. These have been the magnets which have attracted many people who have purchased summer cottage and permanent home sites in such neighborhoods. Almost every large city now has a high grade subdivision with a nine or eighteen hole golf course in connection. Some of the finest residential lots are grouped about the golf course itself which often furnishes a vista particularly pleasing to those who desire to erect exclusive homes. From the operator's standpoint this is good business for by giving enough land for a golf course an additional price may be added to adjacent lots to more than pay for the donation of land and leave a handsome profit besides. Small parks serve the same purpose.

As cities grow in size downtown business property becomes increasingly valuable and more difficult to obtain. It is the natural instinct of the skilled operator to in some profitable way utilize every square foot of land which is not earning a return. He will spread out on his desk a map of his city's business district, study it carefully, note where land remains vacant, plan a

profitable enterprise which can utilize the waste land and then acquire control of the necessary property with this promotion in view. When the improvement is completed the operator has not only made some money but has performed a definite service for his city by literally obeying the sentiment of the biblical injunction of making two blades of grass grow where one grew before.

Genius leaps beyond precedent and is not dismayed at the failure of others to accomplish what is clearly a sound and logical purpose. Genius, however, must be fortified by a thorough study of the fundamental principles which have contributed to the successes or failures of others. Just as the manager of a department store, in the face of accepted opinion to the contrary, will sometimes move his business into a new and untried location, pioneering frequently with satisfactory results, so will the realty operator when convinced that his analysis and study of conditions is correct, press forward with his project in the face of adverse criticism.

With real estate values and building costs at high levels in most cities the operator usually finds that in order to promote a venture he must secure financial assistance from others.[1] Syndicating, consequently, has become customary and speculative investments in real estate are divided among a number who are willing to stake a limited amount of capital upon the judgment of the operator. The syndicating operator must be able to command the respect and loyalty of men with money who will rely upon his opinion. He should never solicit support for his plans until he is reasonably certain that he has analyzed conditions so thoroughly that he can not only convince others of the correctness of his judgment and the soundness of the contemplated project, but also be assured that his plans will not miscarry because of some small hole in the dyke which he has not discovered or has neglected to stop up. This care his syndicate associates not only expect but demand of him. His integrity, sincerity and good faith is that of a trustee in whose control is placed substantial sums of money for profitable investment.

(1) An excellent form of syndicating agreement may be found in the addenda of this book.

Integrity is fundamental. The operator may need financial support from banks and other money lending institutions before his enterprise proceeds very far and he must be able to secure this support promptly and at not too great a cost. Failure may be excusable but dishonest and sharp practice can never be condoned.

Creative genius is frequently displayed by operators in methods adopted for financing enterprises. For instance, one operator became interested in the possibilities of an old building located on a down town corner. He found that it had been erected upon leased land. The terms of the 99 year lease on the land provided for a reappraisal to fix rents in ten year periods. Inquiry from the fee owner disclosed a willingness to convert the reappraisal lease into a graded lease with fixed rentals. The operator thereupon sought the lessee and obtained an option for the purchase of the leasehold estate and the buildings at reasonable valuations. Before closing the deal, however, the operator negotiated a contract with the land owner converting the reappraisal lease into one with fixed rentals upon a basis higher than were being paid at the time but much less than the actual and potential value of the property. The purchase of the leasehold was then consummated, and financing effected by a leasehold bond issue for the entire amount of the purchase price necessary to acquire the interest of the original lessee. All of the operations in the transaction were made to carefully articulate and no risk was taken by the operator as he did not proceed to buy the leasehold estate until he had arranged for definite rentals, nor until he had the entire project successfully financed.

It is one thing to buy property and entirely another thing to sell it. Little profit is usually made until a sale is effected, so that one who knows how to buy properly makes a sale much easier for he acquires property at a price which makes possible a profitable sale. Not much money, ordinarily, is made from actually operating a building. The greatest returns await those who are able to profit from the increased land values which come from the growth of cities and the business districts therein. To a competent building manager there is usually a fair interest return upon the money actually invested in a property,

but fortunes are seldom made from this type of operating except where property acquired in a location before it has come into favor benefits substantially from a shift in a business district.

Care should be taken by an operator to provide for a thorough book-keeping and accounting system which should disclose all items of income and expense in connection with the operation of a property. Adequate reserves should be provided from the rentals obtained from commercial properties to take care of ground rents, taxes, interest requirements upon mortgage loans, depreciation, repairs, maintenance costs and operating expense. Nothing will discountenance an operator as much as failure to meet his obligations when due.

In operating in real estate:

1—Do not plunge into an enterprise until you have thoroughly investigated it.

2—Do not be driven to make a decision by a persistent broker or owner who merely desires to make a commission or profit and forget that you have imposed upon you the burden of making the property pay a profit.

3—Do not expect to buy at the bottom of the market and sell at the top.

4—Be satisfied if you make a satisfactory profit in a reasonable time. Let the other fellow have his profit, too.

5—If your judgment has proven wrong and you see losses ahead, be willing and courageous enough to take your loss before your ship is sunk.

6—Be honest with your associates if you are a syndicator. Never misrepresent a property in negotiating for a sale. Do everything to inspire confidence not only in your ability but, most of all, in your integrity.

7—Rely upon competent advice. Do not attempt to act as your own broker, banker, lawyer or architect. Men who have specialized knowledge along these lines will make you more money and fully justify the fees charged. Good advice is always cheap, no matter what

it costs. Do not seek to get advice without paying for it. Free advice is usually worth no more than it costs.

8—Having assembled your facts, made your studies and consulted your experts, make your own decisions and stick to them until proven right or wrong. One swallow does not make a summer, nor does one loss spell total failure. Courage is vitally essential to success in any business, and particularly is it needed in realty operating.

Operating in real estate has made rich many of those who have followed this unique calling. In the future more fortunes will be made by those who qualify themselves to engage in it.

CHAPTER 18

SUBDIVIDING LAND

Operators have made fortunes—How towns and cities have grown through activities of subdividers—The three to one rule—Problems presented in the choice of land—Eight considerations to be kept in mind—The questions of price and terms—Subdividers buy their property through brokers or their own "scouts"—Danger of subdividing too much property—A complicated business attended by risks—Contracts to release land as sold—Financing allotments—Subdivisions take five years or longer to sell out—Methods changing—City planning, and its effect on the subdivision of land—Cost of installing improvements—Pricing lots—Size of lots—Partial payment plan—Restrictions—Zoning laws—Tag end lots.

Many operators all over America have accumulated a great deal of money marketing home sites, transforming raw acreage into subdivisions by formulating attractive but definite plans on paper, submitting them to expert engineers, following up with the laying out of streets and main highways, and completing the property ready for retail sale by the installation of improvements such as pavements, water and gas mains, sewers, and electricity for lighting.

American towns and cities during recent years have developed in an unprecedented manner. There has been a distinct but steady drift of population from the rural districts to urban centers, necessitating the furnishing of extensive housing accommodations, and this has necessarily meant the placing of many new subdivisions upon the market.

There is a general rule used by subdivision operators that raw land properly developed should sell for from three to four times the cost of the original acreage. Formerly it was estimated that the land cost one-third, the improvements and selling costs represented one-third, and the other third came to the operator as profit. In recent years, the rule of four to one has more generally prevailed, allowing one-fourth for land cost, a fourth for improvements, a fourth for sales and overhead costs, and a fourth for profit. There is no strict rule that can be followed, however, as varying conditions change the problem. Some allotments are highly developed with expensive improve-

ments, while others are furnished only with water, light and sewers. When a demand for lots is very active, sales costs are greatly reduced, and the expense of financing is minimized as the property does not have to be carried very long, and oftentimes the cost of improvements can be paid for from current lot sales.

The first problem the subdivider encounters is the choice of land, priced so that it can be sold profitably in competition with existing subdivisions in the neighborhood. A few general principles to be observed in this connection are:

1—Land for subdivisions should, if possible, be located on a low fare street car line.

2—If there is no car line, the property should at least be approached directly over a well paved highway.

3—The land should be comparatively level. If hilly, or very irregular, much of the ground may not be available for home sites, and the cost of improvements may prove prohibitive.

4—Facilities in the way of public improvements such as water, electricity, and sewers should always be available. Gas for heating water and cooking is a great boon, and helps sell lots.

5—To make the most profit to the subdivider, the land should not be of too large an era. Tracts of from fifteen to fifty or sixty acres are most favored by successful operators. Very large tracts take a long time to develop and market, and a great deal of money is spent on taxes, interest charges, and payments on mortgages.

6—The operator, in choosing the land he plans to sell at retail, should analyze his market to determine the class of buyers who will bring him the most profit on his enterprise. If an industrial city, the marketing of cheap and medium priced lots will pay best. If a commercial city where business men reside, usually a higher type of improvement may be planned for the ready market which probably awaits it.

7—Land located within the probable industrial zone of a town or city should not be subdivided for homes, as it may interfere with the growth of a city, and buyers of such lots may later find the locality an undesirable one in which to live. While such land may sell readily in small units if subdivided, it is wiser to consider the future of your lot buyers, and pass it by.

8—Land which is gently rolling, or possessing lake or river frontage, may be profitably used for medium and higher priced lots. Although improvements may cost more to install, the charm lent to the property by a little picturesqueness later will sell the lots at a higher price.

Having given due consideration to the general fundamentals underlying the selection of land for subdivision purposes, the next step is to acquire it upon the best price and terms possible. Sometimes an operator can afford to pay a higher price for land if he succeeds in securing favorable terms of payment. Most owners usually ask enough for their property, and some have the notion that because land fully or partly improved adjoins their holdings, that the raw acreage should bring as much as the improved property, forgetting that many expenses are involved in the development, sale and carrying of a subdivision enterprise, which in these days is a credit risk, the same as in other lines of business.

Most subdividers buy their new holdings through brokers or through special scouts whom they employ to constantly comb suburban territory for tracts suitable for development. Some brokers specialize in this sort of business. If an owner of suitable land for allotting is approached directly by a known subdivider who is operating successfully in a community, the owner is likely to ask a prohibitive price. If a broker or private scout casually approaches an owner, a better basis for price and terms can invariably be established.

Many operators fail because they take on too much property to subdivide. The more successful ones plan to develop just enough to sell out in about one season. When a large property is taken over, only an amount is improved that may reasonably be expected to be sold in a single season. Subdivision operations

are most active from May to November. There is a distinct dullness during the winter seasons, though many operators work out special plans to permit them to continue operations unabated throughout the year.

Subdividing land is a complicated business, and cannot be entered into and profitably carried on without a great deal of specialized knowledge, and this should be kept in mind by the investor in outlying acreage, who has visions of the city engulfing a piece of property, and absorbing it at high prices. There are many risks just as there are certain gains resulting when the operation is profitably directed.

Assuming that the price is a satisfactory one, the matter of terms must be given careful attention. Most subdividers do not actually invest a great deal of cash in properties they start to improve. The reason for this is that the operator seeks to reserve most of his available cash for the installation of the necessary improvements and overhead of selling expense. Many an operation involving a $50,000 or $75,000 tract of land has started with an investment by an operator of $5,000 or $10,000, the land owner taking back a mortgage on his property, and agreeing to release lots from under the mortgage as they are sold.

Under such an arrangement, the land owner releases small tracts on the basis of the value the single lot bears to the value of the entire acreage, plus twenty percent. This can be worked out to a cent mathematically before sales begin. The land owner not only has the down payment he has received, but he also benefits by the expenditure of money by the operator in installing improvements, and setting up and placing in operation a selling organization for the disposal of the land. This plan has worked out successfully on innumerable occasions, and as the sale of the land progresses, the operator clears away his underlying mortgage, and reaps his profits from the sale of the residue of the lots.

Land for allotting purposes seldom is purchased outright. In some instances, subdivisions have even been taken over by operators and sold out without any down payment to the land owner whatever, all security coming to that person by reason of the substantial sums of money spent on improvements before sales actually were permitted to begin and transfers made.

Several large and successful operators have invited investors into their deals, arranging to have such investors buy a property outright, and then paying them back the actual price of the land plus forty or fifty per cent of the profits accruing from the transaction, which still left the operator a comfortable profit for his work.

It is generally conceded that most subdivisions take at least five years to completely sell out, and it is maintained that any mortgage on the property subject to release clauses should extend for that time, the subdivider being required to make annual payments in reduction of his indebtedness, in addition to the amount received by the original land owner upon the release of individual lots. Usually release payments are merged in the specified amount the operator is responsible for each year.

The land owner is also required, in most cases, to join in the dedication of streets, and furthermore to consent to the installing of sewers, water, gas and pavements, as the operator sometimes arranges to have the improvements put in by the municipality, and assessed back over a term of years against the individual lot owners.

Modern subdivisions, even the humblest, are now being laid out quite differently from those of a generation ago. The old rectangular plat, resulting in a series of square or oblong blocks, has changed to permit the installing of slightly curved or winding streets, which give character and charm to a neighborhood.

Pavements in strictly residential neighborhoods do not need to be more than thirty feet in width, and sometimes even less. Sidewalks are laid in conjunction with curbs so there is no lawn between them. This allows of a wider tree lawn inside of the sidewalk, which can always be better taken care of by a home owner.

Many cities have planning or platting commissions which pass upon plans for a subdivision before work may be started. Violation of any of the rules of the commission are met with a refusal to connect public service facilities with those furnished by the municipality. A sewer which has no outlet beyond the boundaries of a property, and water mains which have no pumping station to supply water, are of little use to the subdivider or his customers, so he usually is eager to have his property plat

approved, and consequently he obeys all of the regulations set forth.

Most platting commissions now require cross streets in a subdivision at least every 1000 feet apart. This permits vehicles to be turned at these intersections. Too many cross streets involve the needless use of land which can be profitably developed into home sites.

Costs of installing improvements vary greatly in different cities, but the cost per lineal foot per lot in the average sized city will probably be about $20, including hard surfaced pavements and all other modern improvements. On a fifty foot lot, it may be seen that the sum of about $1,000 must be expended, regardless of the original cost of the land, selling and other expense, and not forgetting an additional amount to represent a profit to the operator.

Establishing lot prices in a subdivision is a difficult matter, and one which can be accurately solved only after considerable experience in operating. A close study of competitive property must be made as to prices being received. If priced too low, there is no profit in the operation. If too much is asked, the operator fails to attract buyers, which is just as disastrous to his project.

The same psychological condition which prompts department stores to sell articles at 98 cents or $2.99 is taken advantage of by the subdivider who finds that he can sell more lots at $980 and $1950 than he can at $1000 and $2000 for the same lots.

It is claimed that the operator who handles the inexpensive class of home sites makes more money in a season than the one who markets high priced property, but this theory is open to considerable discussion, as it has been disproven many times. The thing to do under most circumstances is to develop the proptry in conformity with the use to which it is actually being put, and the class of people who are expected to buy there and then charge the cost plus a reasonable profit.

Land subdivided into lots 40 by 100 feet in size will cut nine lots to the acre, allowing for street frontages. Lots twenty feet deeper will cut about seven lots to the acre. Many cities will not accept plats of subdivisions where lots have a frontage of less than forty feet, and some few cities insist on frontages of

fifty feet. This is a wise rule for it does away with congested conditions such as are found in many sections of large eastern cities where lots originally were cut as narrow as twelve or fifteen feet. These can be improved only with "row" houses, which are going out of style.

Platting commissions now insist on the orderly subdivision of land. Often they lay out definite plans for future development, extending away out into the open country. Main and secondary highways are laid out on paper, with open spaces for street development such as may suit the operator's whim. In his plat, however, the subdivider is not permitted to install dead end streets, and he must link in his thoroughfares to existing streets or ones to be installed later. By this plan the operator in buying property knows definitely the limitations he will be subjected to.

Expenditures for a sales force average about fifteen per cent of the cost of a subdivision. Salesmen draw from five to ten per cent, according to salability of the property. Superintendents and crew managers get from two to three per cent, and a general sales-manager receives from one to three per cent. Advertising, done mostly in the daily newspapers, in most cities averages five per cent. Other incidentals usually bring the sales cost up to about twenty-five per cent.

Most subdivisions are sold on the partial payment plan, from ten to twenty per cent of the cost price of each lot being required at the time the contract is signed. Subsequent payments are made on a basis, usually, of one or two per cent a month, with interest on deferred payments of six per cent. Interest sometimes is waived for a year or more, but it is buried in the price of the lot just the same. Cash discounts sometimes are given to buyers who wish to pay outright for properties they acquire.

Most modern subdivisions have careful restrictions concerning the use of the land. Houses must be of at least a certain price; must be set back a given number of feet from the sidewalk; must remain a given distance from side lines of a lot; no outbuildings except garages may be erected; only low wire fences may be built, and other conditions definitely set down so the territory may develop in an attractive manner. In some high

grade properties, house plans must be approved by the realty operator before work can be proceeded with. This is done not only to have an orderly architectural development, but is sometimes used as a club to keep undersirable persons out of a highly restricted area, as house plans submitted by them will not be approved on one pretext or another.

Generally speaking, the better the class of restrictions the higher the prices charged and obtained for lots. Operators have found that a high class of development pays; that the average individual desires to live in a well regulated locality, and that he will pay for the protection which rigid restrictions provide.

Some of the most successful operators will not permit the installation of alleys in their allotments, maintaining that alleys furnish a dumping ground for rubbish and litter which should not be allowed to accumulate. Alleys in downtown business sections, however, are most essential for loading and unloading merchandise, as automobile parking regulations in cities are constantly tightening up, and it is difficult for merchandise to be carried into a business building through the front door or sidewalk elevator entrance.

Many of the better grade subdivisions restrict against the erection of multiple dwellings of any sort. Others permit two family, four family, and larger apartment buildings in certain sections where they may act as a buffer against undesirable neighborhoods which adjoin the property.

Zoning laws are being adopted in many cities where the use of buildings in certain localities is definitely regulated. Zoning laws tend to enhance and stabilize property values, and when reasonably conceived and executed are a benefit to any community. They are especially valuable in preventing encroachment into residential districts of undesirable buildings, such as public garages, isolated small stores, and similar undesirable enterprises.

Property restrictions in subdivisions range from twenty-five years for cheap developments up to 100 years for very high grade enterprises. The more rigid and the longer the restrictions run, the better the class of building development which may be expected to take place.

Operators are interested in seeing the values of individual lots increase as it enables them to sell their remaining holdings

at better prices. They always encourage and sometimes help the financing of building operations, as new homes assist greatly in the sale of property as the section takes on life and individuality. Many operators build a few houses to establish the charactcter of the neighborhood, and it is interesting to know that the standard nearly always is steadily maintained. Some of the successful operators build extensively, making profits on both their land and the houses they sell. This is the highest type of subdividing.

After a property is partially built up many sales will be made through residents who have built homes for themselves. They have friends and callers who become interested in the locality, and aggressive operators keep in close touch with home owners in subdivisions which are selling out, and many valuable tips and much assistance is secured in this way.

There are investors in many cities who buy acreage and pay the cost of developing it themselves, giving a contract to a sales organization to dispose of the lots. A commission of from twenty-five to thirty-five per cent is paid for this service. A difficulty with this plan is that after the cream has been skimmed off, and sales become harder to make, the selling agent may lose interest, is likely to shift operations to a new field, something he would not do, of course, if he had a personal interest in the property.

Tag end lots in a subdivision usually are difficult to sell. So are corner and key or butt lots. Since the coming of the automobile, corner lots move more readily than formerly, as it is convenient to drive into one's garage from a side street. The noise and lack of privacy atendant upon living on a corner lot, and the increased cost of improvements and taxes make corner lots difficult to dispose of, especially as most operators add from ten to fifteen per cent to the price of such properties.

Subdividing property is a highly specialized business, requiring considerable capital. Unless an investor is willing to make it his principal business, and devote his entire time to it, it may be said that money can be made more easily and quickly by operating in other kinds of real estate. If he desires to specialize, however, it is often an excellent field in which to make money.

CHAPTER 19

PRACTICAL METHODS OF APPRAISING REAL ESTATE

Knowledge of values essential to investor—There are many kinds of value—Exchange value most commonly used—Earning power may represent the value—Checking sales—Standardizing methods of appraising—Unit foot and depth methods—McMichael-Bingham average depth table—Appraising corner lots and irregularly shaped parcels—Depreciation and what it means—Obsolescence an element to be considered—Determining the value of buildings—Twenty-nine questions which are asked by an insurance company when an appraisal is being made for a loan—To be a competent appraiser requires study, training and long experience.

A general knowledge of property values and the methods whereby they are determined is essential to those who would succeed in buying and selling real estate.

Some investors enter blindly into deals with but little knowledge of the actual value of property. They ascertain the asking price and begin immediately to "hammer down" that price. To the degree they are able to shade a price do they believe they have made a "good buy." This, of course, is a silly method to go by, yet it is followed quite generally. The result is that many astute sellers take advantage of this peculiarity and ask unreasonably high prices to begin with. An asking price is seldom a criterion of value as pointed out elsewhere. The proper way, of course, is for a buyer to determine what the real value of the property is and negotiate accordingly.

There are many kinds of value as regards real property. To the layman value means exchange value, according to John A. Zangerle, eminent authority on appraisal matters.[1] The assessor, the owner, and the corporation all differ in their ideas as to value. There are such kinds as fair value, market value, real value, cash value and true value, according to the same authority.

Generally speaking, however, the accepted meaning is exchange value, which is a price at which an owner is willing to sell who does not have to sell to a buyer willing to buy who does not have to buy.

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(1) See "Principles of Real Estate Appraising," 360 pages, by John A Zangerle, issued by The Stanley McMichael Publishing Organization.

Values are created by many elements, a knowledge of which goes far in assisting a fair determination of the real worth of a given property. It is difficult to enumerate these elements as they are varied, and when they are applied in different cases, the results may be found quite conflicting.

The earning power of a property, capitalized at a given rate of interest, may represent its value. If a tract of land rents for $400 per year, and the going rate of interest is six per cent, the value of such a property would be $6,666. If the interest rate is five per cent, the value is $8,000. In those few sections where seven per cent is the going rate, the value would be $5,714. For an owner to earn this net return, provision must be made for an additional sum in the way of rental to cover taxes, and any special assessments to which the property is subjected. Land values are also directly affected by the cost of building materials and of labor, as these enter into its proper development.

To determine current land values in a neighborhood, a careful check should be made of sales which have taken place within a reasonable period of time. By averaging these sales, a fair idea may be had as to the prevailing prices being paid for land. In a speculative market, sales are active, and a record will be available to the person who seeks information along this line. When a market is dull, sales are fewer in number, and it becomes more difficult to check values. Forced sales should not be considered as they do not reflect normal conditions.

Assessors formerly were prone to give individual values to properties in a given block of a city street. No attempt was made to standardize land values, nor to admit that all land in a block possesses a relative value, subject to proximity to corners and to depth of lots. More scientific methods have now been evolved which are known as the unit foot methods of valuation. By a unit foot is meant a piece of land one foot wide and 100 feet deep. The value of such a strip of land in the center of a block is determined, and then all land in such a block, provided the conditions are similar, is valued at that figure with the exception of the corner lots having a frontage on the main street of 100 feet each. Depths of lots in a given block, however, often vary and by means of tables accepted after extensive investiga-

tion, additional value is given lots according to the depths they possess.

An examination of thirteen depth methods reveals a variety of percentages given to different depths. These are summarized in the McMichael-Bingham average rule, in which the entire thirteen systems have been reduced to an average as follows:[1]

Depth in Feet	New McMichael Bingham Standard	Depth in Feet	New McMichael Bingham Standard
5	15.28	80	88.76
10	25.13	90	94.55
15	30.36	100	100.00
20	36.95	110	105.20
25	42.67	120	110.20
30	48.28	125	112.56
40	58.11	150	123.73
50	66.99	175	131.44
60	74.97	200	139.04
70	82.24		

From this table it may be seen that a unit foot one foot wide and 100 feet deep is given a value of $100. The same unit 150 feet deep is worth $123.73, and a unit 200 feet deep is worth $139.04. One of the tables most widely used is known as the Cleveland standard. This may be found in the addenda of this volume.

The appraising of corner lots has been standardized in a similar manner. According to the curve used by John A. Zangerle, an average corner lot has an additional value of 72 per cent over an inside lot of similar frontage. Irregular and triangular or flatiron lots are appraised in other ways. Alleys also add additional value to land, and must be so considered when they are present.

Two methods are used in appraising building values, by square foot and by cubic foot. When the square foot method is used, the appraiser, reinforced with a thorough knowledge of prevailing costs of buildings, estimates the square footage of a building, applies to it a given factor, and arrives at a definite result. When the cubic foot method is utilized, the entire cu-

(1) "City Growth and Values," 370 pages, published by The Stanley McMichael Publishing Organization, Cleveland, O.

bage of the building is arrived at and multiplied by a given factor which determines the approximate cost of the structure.

Depreciation enters largely into the determination of building costs. As a building ages, there is the element of physical decay to be reckoned with. In some classes of structures, it is greater than others. Generally speaking, an appraiser estimates that an average building has a life of at least fifty years, although some structures may deteriorate more rapidly than others.

Obsolescence is also an element to be considered. This takes into account the changing neighborhood conditions which take place. A building may have a physical life of seventy-five years, yet it may be obsolete in forty years. This may be due to the changing character of a territory, or to changes in style of architecture or construction. A dwelling or an apartment house, considered modern today, may be entirely out of style fifteen or twenty years from now. These factors must always be considered in determining value.

To properly determine land or building values requires study of an intensive character that appeals particularly to those who are mathematically inclined. It requires a careful analysis of all of the factors which add to or detract from value. As far as the general investor is concerned, these problems can be best left to the realtor who is negotiating a sale or who is assisting an investor in making a purchase of a given piece of property. You hire a lawyer because he knows the law or a doctor because of his familiarity with medicine or surgery. By the same token, a realtor will assist the investor in determining whether a property which has been submitted is worth the price asked for it. The extent of the knowledge required by a capable realtor is perhaps better emphasized when it comes to the scientific determination of value than in any other branch of the real estate business.

The investor who wishes to know the technical whys and wherefores of scientific appraising would do well to carefully study Zangerle's "Principles of Real Estate Appraising" to the end that he may be able to determine for himself whether a property is worth the price asked for it. Another volume re-

plete with information about appraising problems is "City Growth and Values," by Stanley L. McMichael and Robert F. Bingham.

A great deal of detailed information is necessary in the making of a proper appraisal. Every possible item of information available is sought to the end that every factor of value, and the influences which affect value, may be known. To illustrate the manner in which information of this kind is sought after in the making of a thorough appraisal, attention is directed to the following questions which are asked by a large mortgage company in passing on the value of a property for loan purposes:

1—Value placed thereon by the owner.

2—Value placed thereon by the seller.

3—Value placed thereon by real estate experts.

4—Information in possession of title companies.

5—Volunteered information given to the assessor by persons alleging certain information on the subject.

6—So-called "City Services," of which the real estate has the benefit.

7—The amount and character of traffic in front of or near same.

8—The nearness of the real estate to trolley lines, railroad stations, etc.

9—The character of the neighborhood in which the real estate is located.

10—Recent or contemplated improvements in the neighborhood.

11—Whether or not undesirable elements are present in the neighborhood.

12—The grade of the land. How this fits into the city plan.

13—Whether or not the real estate is a corner property. If not, whether it has access to two streets, one in front and one in rear.

14—The previous assessment of the property and surrounding properties.

15—The amounts loaned on mortgages in the neighborhood.

16—Valuations as sworn to in petitions in the Probate Court and Court of Common Pleas.

17—Valuations placed on similar property in condemnation proceedings.

18—Valuations set forth as required by law in sworn statements made by corporations as to the real estate owned by them.

19—The amount loaned on mortgages secured by one particular piece of property or surrounding pieces by financial institutions allowed to lend only on certain fixed percentages of real value.

20—Amounts offered in good faith for the surrounding properties.

21—Whether or not the surrounding properties are rented, occupied by owners or empty.

22—Character and cost of construction of buildings erected on the property.

23—Information as to the value of surrounding buildings in possession of the fire underwriters.

24—Value placed upon land and buildings by builders and contractors.

25—Probable cost of construction of the buildings by cubic feet.

26—Probable cost of construction of the buildings by square feet of floor space.

27—Whether or not possible uses of the buildings are suitable to the neighborhood in which they are located.

28—Whether or not the property is of such character and so situated as to be practically necessary to the municipality or to some company or individual other than the owner.

29—Testimony given to the board of revision on appeals.

To become a capable and accurate appraiser takes a lifetime of work and study. An average investor will do well if he learns the rudiments to help him in checking the opinions of experts with whom he may come in contact. A general knowledge of appraising will satisfy him that what he is buying is being properly priced and worth the money he is asked to pay for it.

CHAPTER 20

FINANCING REAL ESTATE TRANSACTIONS

Some deals involve little trouble in financing—The first mortgage usually employed—Second mortgages and trust deeds—Third mortgages sometimes used—Percentages of value represented by different kinds of mortgages—Syndicates and how they operate—Where and how funds are available for investment—Banks and mortgage companies constantly engaged in loaning money on real estate—Life insurance companies loan extensively—When it pays the investor to go into debt—Be frank and honest with your banker—How to present your application for a loan.

Fiancing real estate operations is a most important procedure, and one which has a direct bearing upon an investor's ability to make money in buying and selling real estate.

In some deals the financing program is all set up in advance. It is necessary only to accept an offer and pay a price, and the transaction is closed. The larger transactions, however, call for considerable ingenuity in the working out of details to the end that the financing may be of as favorable a character as possible. Familiarity with the instruments used in assuming indebtedness is necessary to the successful investor. There follow brief references to the various forms which are most commonly used.

A first mortgage is involved in most transactions. It is a properly signed legal instrument, usually recorded at the county courthouse, and is given by a borrower, or mortgagor, to a lender, or mortgagee, by which the latter is delegated the right to take possession of the property described in the mortgage, in the event the borrower defaults in meeting the indebtedness for which the mortgage is given. A certain rate of interest is stipulated, and a time is definitely stated at which the entire loan falls due. Failure to pay interest or principal permits the lender to assume possession of the property, after due legal steps have been taken to declare the mortgage void.

A second mortgage, sometimes called a junior mortgage, is one placed on a property which already is encumbered with a first mortgage. It is assumed that the first mortgage covers a valuation of at least fifty per cent of the full worth of the prop-

erty. It is seldom wise for a lender to take a second mortgage for an amount which brings the total indebtedness up to more than 75 or 80 per cent of the value of the property.

A trust deed differs from a second mortgage, in that it conveys title to property to a third person or trustee for the purpose of securing a debt or other obligation. The instrument empowers the trustee, in case of default, to sell the property, subject to a first mortgage, if such exists. A sale, under the terms of a trust deed, allows no period of redemption.

Third mortgages are sometimes resorted to in financing real estate deals, but usually are so hazardous that a lender will not accept such a mortgage unless a substantial bonus is paid, and the instrument carries with it a high rate of interest. A bonus of as high as twenty or twenty-five per cent is sometimes asked for a third mortgage. Second mortgages often carry with them the obligation to pay a bonus of from five to ten per cent yearly in addition to interest.

To illustrate the manner in which an average deal is worked out, let it be assumed that a property worth $100,000 is being sold with a down payment in cash of $25,000. This leaves a balance of $75,000 to be provided for. The seller would in most cases be willing to take back for three or five years a first mortgage for $50,000, with interest at six per cent, payable quarterly or semi-annually.

It may be seen that it is necessary to obtain $25,000 in second mortgage money to complete the transaction, the only alternative being that the seller is willing to take back himself a trust deed for that amount for three or five years, with interest at seven per cent, the principal being reduced annually to the extent of several thousand dollars.

To negotiate a second mortgage of $25,000 in the average American city will mean that a bonus of from five to ten per cent will have to be paid for the first year, from ten to fifteen per cent for a full two years, and from fifteen to twenty per cent for a full three year period. This is the penalty the buyer pays for attempting to acquire a property with the limited cash funds in his possession. It is done in a great many instances, however, and the increment to, or the revenue from the property makes it a worth while procedure.

Individuals and groups of investors, the latter organized in companies or syndicates, are constantly buying and selling property which involves the constant use of mortgages and trust deeds. These instruments should be prepared by experts, as they cover matters of importance, and one cannot afford to have mistakes made in documents of this character. Unless thoroughly competent to do so, do not attempt to prepare your own legal papers, but consult a good real estate lawyer.

Investing through syndicates is becoming increasingly popular and profitable in many of the larger cities of the country. These syndicates are usually promoted by real estate brokers or operators, who assemble a group of investors, who agree to assume the ownership of a property. They split up the cost of acquiring it into shares which are assumed by the individual members of the group. These syndicates often are incorporated into companies, though many simply operate under syndicate agreements, trusteeing the property in the name of one person. If the property maintains itself, the trustee manages it for the benefit of the group. If not self sustaining, the various members of the syndicate are assessed from time to time for enough money to meet the obligations as they become due. Many properties which are not self sustaining are growing steadily in increment, and can be sold or leased at a substantial profit after being held several years.

Funds for financing real estate operations are available from a number of sources. Certain individuals make a practice of loaning money in this way, but demand the highest rate of interest possible to obtain, and are sometimes difficult to deal with. National banks are not permitted, under their charters, to loan on real estate. Why this is so it is difficult to explain, and the only reason that seems at all logical is that such banks deal in commercial matters, and desire to keep their funds as liquid as possible.

Savings banks and trust companies make a general practice of loaning about one-fourth of their funds on real estate at current rates of interest. They do a great deal to help real estate development, and give especial attention to the needs of their own customers. They make their own appraisals of property, and these often are a little lower than its market value. They then

loan from forty to sixty per cent of a total valuation on such an appraisal, as the merits of a case may dictate. Banks in most cities now require the reduction, or amortization, of real estate loans to the extent of about one per cent per quarter, or four per cent per year. Loans are made, ordinarily, for only one year, but are usually allowed to run on as long as reductions in the principal are being regularly made.

Savings and loan companies supply a great deal of the money required in most communities for the erection of homes, these companies specializing in this important field. They usually charge one per cent more in interest than a regular savings bank, and make their loans for a term of three years, with an amortization rate sometimes as high as one per cent per month, or twelve per cent annually. Many homes are built with funds from this source, and then after the buildings are finished, the loans are transferred to banks, as many such instiutions do not care to assume the bother of making construction loans. By changing over from a building and loan company to a bank, the owner's interest charge is reduced from seven or eight to six per cent in most instances.

In the larger cities there are being organized and operated mortgage companies which make a regular business of loaning money on real estate of all kinds. Stock in such companies is sold in sufficient amounts to secure an operating fund which is kept revolving constantly by the paying back of borrowed funds on the same amortization plan now used by many banks. Some of these mortgage companies will take very large loans, and issue them to the public for general subscription in the form of bond issues, with mortgage bonds in units of $100, $500, $1000, and upwards. These bonds are also amortized by repayments on the principal at stipulated periods ranging from ten to fifteen years.

Some of the larger cities have successfully operating companies which make a specialty of selling bond issues only, with real estate as security. This may be held in fee simple or under ninety-nine year lease. The latter form was slow to gain favor, but is now fully recognized in many of the larger cities as a satisfactory form of security, when properly appraised by competent experts who can examine and pass on the value of leased property.

Another fruitful source of money is from life insurance companies, which are always piling up reserves and investing them, for the most part, in real estate. During, and just after the Great War, American life insurance companies invested tremendous amounts of cash in liberty bonds as a patriotic duty, but several years after the close of the war they began shifting back to real estate, a security which is ideal for the safe investment of such funds. Borrowing from a life insurance company often has a distinct advantage, as loans are usually made for a period of five years at current rates of interest, and a modest amortization plan, if the borrower is even asked to make repayments on his obligation. The larger life insurance companies loan their funds through special agents located in the larger American cities. These agents collect a fee of two or three per cent for arranging the loan. Insurance companies prefer large loans, if they are able to obtain them, making reasonable appraisals of the properties on which such loans are desired.

Some persons abhor debt and decline to acquire real estate unless they can pay cash in full for it. This, of course, is fine theory but poor practice. While a land owner is paying six per cent interest on borrowed money, the land which he controls may be increasing at the rate of from ten to twenty per cent per year, if strategically located. By having an equity of fifty per cent in each of several properties, he increases greatly his opportunity of reaping increment from all. In cities most properties are mortgaged, many of them to the full extent that their values permit. The successful operator in real estate is usually the one who knows when to borrow wisely and well, and wait for the inevitable increase that comes to well located property.

Mortgages may be assigned, so if you have purchased a property and arranged a new mortgage in your own name, you can readily sell the property, and have the obligation assumed by the buyer. The property itself is the security for the loan, and ordinarily the lender is not greatly concerned as to the name or personality of the owner himself.

In planning to secure a mortgage be frank with the bank, institution or individual with whom you are doing business. Do not attempt to deceive, for if you are caught in any such de-

ception, there will be small chance of continuing your financing arrangements through that channel.

In securing a mortgage a "waiver" may sometimes be advantageously used. This is particularly true when the property is a large piece of vacant land which may be sold in smaller parcels. The mortgage can be so written that certain parcels can be released upon the payment of specified amounts in cash, which will reduce the mortgage in the proportion that the amount of the land sold bears to the entire area held under the general mortgage agreement.

In applying for a loan of any kind an investor or prospective buyer should study carefully the manner in which the application is made. Most lending agencies have regular forms in which questions are asked. There is always a space for "remarks" and the borrower naturally should make every effort to point out the advantages of the property, which he wishes to pledge as security for a loan. Care and skill in doing this may result in a more liberal loan than otherwise.[1]

There is a considerable latitude in the amounts different agencies will loan on fair appraised values of real estate. Banks are usually conservative and loan about fifty per cent of the reaonable market price as arrived at through their own appraisal methods, which usually are more conservative than those used by most other financial institutions. Savings and loan companies in most states are permitted to loan up to two-thirds of the value of a property. Mortgage companies, by demanding a higher rate of interest, and sometimes a cash bonus, may loan seventy or seventy-five per cent of the value of a property on a first mortgage. Individual investors seldom desire to loan more than sixty per cent on the market value of a property. Instances have been known, however, where a speculator has secured a first mortgage of seventy-five per cent, and a second mortgage of more than sufficient size to buy the property and still have some borrowed money left over. This, of course, is dangerous business, particularly if the lender has any consideration for the security of the funds at his disposal.

(1) A typical application blank for a mortgage loan may be found in the addenda of this book.

A borrower usually reserves the right, in making a mortgage, to pay back the principal on or before a given date. If he finds it desirable to refinance, he can do so under such an arrangement. Some individuals and institutions will permit this only upon agreeing to pay a small penalty if the loan is taken up sooner than its term indicates. This is done because of a desire to regulate the lender's business so that recurring expenses for canceling loans will not be encountered in a shorter time than the mortgage is made for.

Ingenuity in financing real estate transactions has made many a man rich. It has also sent many an apparently clever man to the penitentiary when his manipulations got beyond bounds, and he resorted to bold trickery. Financing transactions should be keenly scrutinized, not merely for mistakes which may be made, but for any evidences of fraud which may become apparent. By handling real estate deals through escrow with a responsible title company, the risk is minimized, as the escrow officer is trained to detect tricks of all kinds in financing realty operations. While it is not a part of his duty to insure against such irregularities, nevertheless, by his very training and familiarity with the transfer of property, he is able to do much to protect the innocent investor. If there is a broker in the transaction, he will, of course, be in duty bound to protect either side, should evidences of trickery manifest themselves.

In former days, some persons who had money to put out at interest, particularly widows and others dependent upon funds left in their care for proper investment, placed their entire assets in hands of lawyers, for them to invest as they saw fit. The majority of lawyers are honest, yet there are some who have not overlooked opportunities to misuse a client's money. The better way, in such cases, is to establish a trust fund estate at a thoroughly reliable savings bank or trust company, and proceed to invest under the direction of a responsible officer of such an institution.

"Vigilante salus—in vigilance, safety!" is the motto upon the family crest of the author of this volume. It is an excellent

and what not to do. By all means take a direct personal interest in the details of your financial arrangements. Do not leave their investigation entirely in the hands of others. There are plenty of means available by the use of which you may avoid financial troubles in connection with your real estate transactions.

CHAPTER 21

WHAT AN INVESTOR SHOULD KNOW ABOUT VARIOUS KINDS OF INSURANCE

Insurance a blessing—No one should own improved property without insuring it—Insurance a voluntary but highly necessary tax—Many kinds of insurance—Co-insurance and what it means to the investor—Penalty for failure to pay premiums promptly—Why policies are held by lenders on mortgages—Five ways in which mistakes are commonly made in connection with insurance policies—Liability insurance and its benefits—Tornado insurance often desirable—Rent insurance protects the investor—What it costs—Kinds of policies—Leasehold insurance the newest type—How it operates—How insurance policies are handled under ninety-nine year leases.

Insurance, considered by some a necessary evil, is in reality a blessing in disguise.

No investor should attempt to own improved real estate without having buildings properly insured. As a matter of fact, most buildings that have any value are so covered, some not only by fire insurance, but often by other forms as well. The insurance business is now conducted on a high grade basis by unusually capable men, who seek to give real service to their clients. A competent insurance broker will cover your improvements with fire insurance, if you telephone, write or call and see him, and give him a proper description of the property. He maintains carefully prepared maps of the entire city or town in which you live, and can refer to the type, material and size of every building in the entire community. Unless he cannot recall by reference to his atlas just what your property consists of, you will be protected from the moment you give him oral or written notice.

Insurance is a voluntary tax, but it is an obligation well worth while. Fires and similar catastrophes are likely to occur without warning, and unless proper protection is carried, a partial or total loss may result, which may be of an embarrassing and wasteful character.

There are a number of different kinds of insurance, but the ones applying most particularly to real property are fire, tornado, liability for accidents about a building, explosions and riot,

whether from labor or other troubles, breakage of plate and other kinds of glass, damage caused by boiler explosions, rental and leasehold value insurance. The principal risk insured against, of course, is that of fire, damage to the extent of many millions being done each year throughout the country.

Some investors do not comprehend just what is meant by "co-insurance." This permits of a property owner determining the amount of protection he desires to carry. The nearer the amount of insurance taken approaches the actual market value of the premises, the less the rate paid by the insured. Assume that you own a $1,000,000 high grade fire proof building. If you insured such a structure for $1,000,000, it would cost you at the rate of approximately 36 cents per $100. The rate if you insured it for 90 per cent of its value would be the same, but if you chose an 80 per cent risk, which is the one most commonly called for, you would pay 40 cents per $100 of value. The rate for 70 per cent would be 45 cents, for 60 per cent would be 52½ cents, and for 50 per cent it would be 60 cents per hundred. Most companies do not care to go lower than this on the co-insurance plan. The rates quoted above are about normal in an average city having competent fire protection. Outlying poperty rates naturally are higher as are those of other classes of buildings other than high grade fireproof structures.

Failure to pay insurance premiums results usually in the cancelation of policies. If you are known to the agent as a good credit risk, he may carry you at his own expense for a period of thirty days. Substantial losses sometimes are suffered through failure to maintain fire insurance policies in force by paying premiums on them in proper season.

Extreme care should be taken in connection with the selling and buying of improved property to see that policies are promptly and properly assigned or renewed immediately after a new deed is filed for record, for this announces to the world the beginning of a new ownership. Contrary to the usual conception, insurance does not necessarily protect actual property, but actually covers the insured against loss. If a fire follows shortly after a property changes hands, and the insurance company has not been notified of the fact, the insurance really is held by the former owner, who cannot sustain a loss, having disposed of the

property. The new owner cannot collect as the insurance company has not agreed to accept him as a risk. Difficulty of this kind usually crops up in connection with the sale of residential property, as business property is usually transferred through competent hands, and the transfer of the insurance is taken care of. More complete reference is made to this particular problem in Chapter 11 entitled "Escrowing Real Estate Deals."

Some owners of property do not understand why in giving a mortgage in return for money loaned them on real estate they are required to turn over all insurance policies to the lender of the money. This has become a universal custom, and is quite fair as the holder of a mortgage has a first lien on the property, and if a fire loss ensues, his interests may be materially reduced if he is unable to collect the insurance paid. The careful property owner usually protects himself by stipulating in the fire insurance policy that payments for fire losses shall be made jointly to himself and the mortgagee or lender. Neither the owner nor the person loaning money in this way can collect any funds paid for a fire loss without the interests of each being properly protected.

The most expensive and dangerous mistakes in connection with fire insurance are made in connection with the following matters:

1—Descriptions of property which are improperly given sometimes result in voiding a policy. It is the owner's duty to furnish a correct description, and the company's privilege to check it.

2—Owners or lessees sometimes fail to definitely state the particular interest they have in a property. A fee simple ownership is best, but there are also life estates, long term leases under which an occupant holds possession, land contracts which give a tenant a certain interest in a property, and sometimes even a person owning such an interest as a mortgage insures the property for his own protection. An insurance company is entitled to all the facts, and these should be given correctly, carefully, and honestly.

3—The property should be used for the purpose stated in the policy. Usually the purpose is well de-

fined, but if a building is devoted to stores on the ground floor, it is usually stated that it is being used for mercantile purposes. If changed in character of use, the insurance company should be promptly notified.

4—If you take out a co-insurance policy, stipulating 80 per cent as the interest involved, you should keep it at that percentage. If the value of the property increases, you should increase your insurance as the fluctuation occurs. For instance, if your building is worth $50,000, and you insure it for 80 per cent of its value, you would be entitled to a claim of $40,000, if it was entirely destroyed. If, however, it has doubled in value, and is worth $100,000, as many buildings were following the Great War, and a fire occurred before you had increased your insurance, you would receive only 40/80ths of the insurable value of the building, or a total of $40,000, thereby suffering an actual loss of $40,000 through your negligence. Buildings ordinarily do not increase much in value, rather do they depreciate, while land goes up in value. There are cases, however, where building values may materially increase, and you should be sure to keep your co-insurance on the proper relative basis.

5—Difficulty sometimes ensues when you accept a fire hazard, concerning which the fire insurance company is not notified. For instance, you may own a building which is occupied by a large hardware store. The rate on such a risk ordinarily would be about 75 cents per $100. If you lease it for garage purposes, the rate would jump to $1.25 per $100, and if a fire ensues before the policy is changed, you might have serious difficulty in collecting a fire loss.

Many property owners carry liability insurance to protect them against real, fanciful or criminal claims for damages in connection with accidents which occur in and around business properties, theaters, markets, parks, hotels, and apartment houses. The cost of liability insurance is not high, and is well worth while. There are many unavoidable accidents which occur for which a property owner is liable under the law. Having the property at stake, the landlord is a ready mark for scheming law-

yers who take personal injury cases on a percentage basis. Even if a claim is not awarded against the owner, the cost of defending such a suit is expensive and annoying. When a claim is made where a liability policy exists, the company issuing the policy sets its own lawyers to work, defends the property owner in court, and pays the loss up to the amount stipulated in the policy covering the property.

Among the kinds of claims covered by liability insurance are those where people fall off back porches of apartment houses, are hurt by swinging doors, injured by breaking or spraining a limb in a defective sidewalk or coal hole, being struck by falling signs or displaced coping from buildings, and a variety of other accidents. Even owners of vacant lots which are not fenced in sometimes carry such insurance, for if a person is hurt by a falling sign board, or injured while crossing the lot, a claim for damages may be filed and expense caused whether or not the claim is confirmed by the court.

Liability insurance also applies to elevators. The average yearly cost per elevator is about $40, which carries with it a careful inspection service maintained by the insurance companies to ascertain that elevators are safe and in proper working order.

Tornado insurance is carried much more extensively than is commonly supposed. It is estimated that about thirty per cent of the property in the country carries this form of insurance. It is confined largely to the middle and western states, though a considerable amount of tornado insurance is carried in eastern states as well. An average cost for this form is, roughly, about forty cents per $100 per year. In the tornado which swept the city of Lorain, Ohio, in June, 1924, millions of dollars worth of damage was done, and it is said that there was less than five per cent of the total loss collectible because property owners did not carry tornado insurance.

It is not generally known that rent insurance is becoming quite common in some of the larger cities throughout the country. Many investors depend for their incomes upon the receipt of certain rentals. When these are suddenly cut off through fire, tornado, or other disaster, or through a business depression, they are without income, which ceases wholly or partially until the property is restored to its earning capacity, which may be months

later. It is now possible to secure insurance, so that if rentals cease or decline, the insurance company assumes the load, and proceeds to pay you your full rentals until the property is again in position to produce revenue to its normal capacity.

Rent insurance is usually made for a term of one year, as it is assumed that any ordinary damage can be repaired in that time. The cost is not prohibitive to those who insist on full and complete protection. Provided the rate on property damage by fire is $1 per $100, the rent insurance rate would be 32½ cents per $100. Frequently policies are issued for less than a year, the assumption being that any property loss can be repaired in less than that time. In connection with the above illustration the rates would be:

For 11 months, rate per $100..................34 cents
For 10 months, rate per $100..................37 cents
For 9 months, rate per $100..................45 cents
For 8 months, rate per $100..................45 cents
For 7 months, rate per $100..................49 cents
For 6 months, rate per $100..................55 cents

Rent insurance is not usually written for a period of less than six months.

There are now several large companies which insure rental returns. There are two general types of policies, one called plain Rent Insurance, and the other Rental Value Insurance. Rent is defined as the amount of money paid by a tenant to an owner for the use of certain premises. Rental value is the term used when an owner occupies a building, and it represents the sum for which he could rent it, or the amount he would have to pay for a building of similar location and advantages. Rent Insurance protects the owner from loss by failure of a tenant to pay rent. Rental Value Insurance compensates an owner when a building which he occupies becomes untenantable, through fire or a similar cause.

Companies in this field now write two types of policies for Rent and Rental Value Insurance as follows:

1—To cover the entire annual rental income. This gives the most complete protection to the owner, and is particularly recommended in severe climates, where cold delays construction work; or where the size of the building, or the materials or workmanship employed therein

would require an unusually long time to replace if destroyed.

2—To cover rental income for only the actual period estimated by the owner to restore the building. This is adapted to milder climates, where weather conditions seldom delay building operations.

These two forms are divided into five types for convenience of making contracts, as follows:

1—The company is liable for rent, whether the building is rented or vacant at the time a fire occurs and is based on the rent for the time it takes to rebuild or restore the building to a tenantable condition.

2—The company is liable for the rent of only the occupied portions of the building, and is based upon the rent for the time it takes to rebuild or restore the building to a tenantable condition.

3—The company is liable for the rent whether the building is rented or vacant, and is based upon the full annual rental value.

4—The company is liable for the rent of only the occupied portions of the building, and is based upon the full annual rent of such portions.

5—Rental for season risk. The company's liability is limited to the actual loss of rent or rental value sustained for a certain definite period in the year. This form is particularly applicable for summer or winter cottages.

Did you ever hear of leasehold insurance? Responsible companies have entered the field, guaranteeing to insure holders of leases against loss due to the failure of the leased property to pay them a return, or due to their inability to enjoy the use of the property themselves in connection with their own businesses.

Ninety-nine year leases usually contain a provision that a lease cannot be voided because of a fire, even if the improvements are completely destroyed. The lessee must wait until the insurance money is paid and the property is rebuilt or rehabilitated. Insurance companies of repute, however, now stand ready to insure lessees against loss on leases of ten, fifteen or twenty years, and sometimes for longer periods.

A lessee on a twenty year lease, for instance, has the option of subletting the premises he holds under lease at a higher rental than he pays, and pocketing the profits. If the property is made untenantable through fire, cyclone, or other disaster, the rental ceases, but the property owner, in his lease, has probably stipulated that the lessee is not released if the premises can be rebuilt within a specified time. If the lessee does not sublet, he may occupy the leased premises for his own use. Perhaps he has a very advantageous lease at a low rental, and it will be a real hardship to be dispossessed of the use of the property during rebuilding operations. In either case, insurance can now be secured to cover the loss. The former is called Leasehold Profit Insurance, and the latter is termed Leasehold Value Insurance.

Insurance experts consider that as far as they are concerned, the best form of leasehold insurance is that in which the conditions of the lease call for a total destruction of a building before the lease can be voided, and the least desirable form is the lease which permits the owner the option of canceling the lease in case of only moderate damage. They claim that if the rental is low, due to the generosity of a landlord, through substantial improvements which have come to a neighborhood, or because of good times, and if only slight damage is done to the property, the landlord will be eager to cancel the lease, and re-rent the premises at a higher figure. If the lease is canceled, and is insured, the lessee collects, and the insurance company is subject to a loss. A lease considered profitable to a lessee is regarded as a good risk, one less profitable may be a fair risk, while a lease which has no elements of profit to a lessee is not considered insurable.

Under ninety-nine year leases, insurance policies are usually deposited with a bank or similar trustee with full power to disburse under the definitely stipulated provisions of the lease, even if the lessor, or land owner, is absent in another country. Insurance funds due on losses are paid out on an architect's estimates as a new building proceeds, or a damaged one is repaired, and made habitable.

Due to the property values involved, every investor should give careful attention to insurance matters, and see that policies are kept properly in force, and that premiums are paid regularly.

CHAPTER 22

HOW REALTY VALUES MAY BE INCREASED BY BUILDING UP NEIGHBORHOODS

Business centers and how to promote their development—Value of organized effort by property owners—Various kinds of clubs and associations—How meetings, picnics and contests arouse interest—Securing new and better public improvements—How a real estate board may help—Bankers assist by loaning money for building purposes—White way electric systems—Placing schools and churches back from main arteries—Large hotels seldom flourish in neighborhood centers—Chain stores sometimes operate in these sections—Promoting retail buying—Zoning laws and how they affect business centers—Intelligent persistency brings reward.

With the development of street cars, rapid transit, and the automobile, come the neighborhood business center. These little "business villages" are scattered all about the larger cities of the country. They have a distinct tendency to grow together along main arterial highways, at the junctions of which they first crop up.

Potential wealth lingers around busy neighborhood centers. It is amazing how, in some instances, property values develop from a few dollars per foot front for land to prices ranging into the thousands of dollars per foot front. These districts begin with the establishing of one or two stores at a crosstown car line, or motor highway, to be followed soon after by more stores, a theater, a lodge hall, a branch library, a fire or police station, a bank, a furniture store, a savings and loan office, more stores, a private market house with many small stalls, garages and automobile branch agencies, another theater, some more stores, and so on until the locality presents all of the appearances of a complete town in itself, surrounded by many streets lined with residences or apartment houses.

To assist in the orderly development of such a neighborhood, a time usually taking from five to fifteen years to accomplish, various plans have been used which will bear repetition in other small but steadily growing communities. By organized effort among property owners, who will reap their reward in increased increment for their land and growing rentals for their buildings, much can be done which will benefit such sections.

Neighborhood improvement associations, chambers of commerce, and property owners' leagues have been organized and operated with great success in many of these rapidly expanding centers. Unless some such medium is definitely chosen, and merchants and property owners work faithfully together many opportunities will be missed in bringing profits to the neighborhood. Under the auspices of such organizations may be held banquets, parades, picnics, and contests of various sorts. Old friendships will be cemented, and new ones created. Trade whch formerly was attracted to the large downtown stores will remain at home in a larger degree, provided the merchants are alert to their opportunities, and let their customers know of their wares.

Effective service may be rendered by neighborhood associations in securing new pavements, and having old ones better cared for. New "white way" street lighting systems can be planned and secured, changing dark, somber districts into areas as bright as day. Street cleaning can be made more effective. Objectionable and dangerous wires may be placed underground in conduits. Residential districts can be beautified by tree planting and by a spirit of co-operation not only homes but business buildings can be made to be brighter and more prosperous looking.

Effective help is often secured from neighborhood weekly publications which devote their entire attention to singing the praises of the sections from which they are securing their patronage. Successful merchants who have become so through their knowledge of the value of advertising patronize these weekly mediums and often secure new and profitable business which would otherwise drift downtown to the large department stores.

Organization of neighborhood real estate boards is often helpful in the formulating of concerted plans for building up a territory. Los Angeles is perhaps one of the most conspicuous examples of this in the entire country. Like other large cities, it has annexed many towns and villages about its borders. One of the rules of the National Association of Real Estate boards is that there shall be only one recognized board in each city. Realizing, however, that occasions might arise where neighboring towns would be absorbed, the National Association has

worked out an arrangement whereby smaller boards may become affiliated with the main board in a large city, functioning as neighborhood units, but receiving all of the benefits of membership in the larger organization. These groups of realtors, working harmoniously together, are often able to effect many improvements in a neighborhood center, to the benefit of all property owners. Los Angeles has a number of such boards operating in conjunction with the main body of realtors.

Small banks often are organized in such centers, the officers of which have an intimate knowledge of the needs of the builders and merchants in a community, helping them as the occasion demands. Savings and loan companies, supported in their membership by residents in a district are formed and help the solving of home building problems.

Always alive to the best interests of a center, an association of merchants may inaugurate a contest for the best decorated show windows. Attractively decorated and adequately lighted show windows do much to retain home trade, which would otherwise be attracted elsewhere. One live community made a great success by buying a medium priced automobile, dividing the cost into small trading checks, which were given away with merchandise over a stated period, one of the contestants winning the prize. Later a large number of prizes were donated by a group of merchants, and interest maintained in this way.

Street car extensions, and the bringing in of new public service facilities, which do much to enhance property values, can be stimulated by properly directed associations. These efforts, if conducted on an indivdual or political basis, might often fail.

The brightly illuminated picture theater, which comes to almost every business neighborhood, as it begins to grow into importance, is always an important asset, much more so relatively than it would be in a downtown section of a city. Such institutions do most of their business in the evenings. It is significant that while the downtown areas of a city have few stores open at night, the neighborhood centers maintain many stores which keep open every evening, profiting from the traffic which throngs to the picture shows. Store rentals in a section in which a picture show opens are nearly always affected favorably by its advent.

The main corners in a neighborhood center are nearly always monopolized by a drug store and soda fountain, a confectionery store, a cigar store, and often a bank. These institutions, if properly patronized, can afford to pay high rentals, which reflect themselves in other store rentals in the neighborhood, and the owners of business property generally are benefited.

Churches, hospitals, fire and police stations, and schools which naturally develop with neighborhood centers are not classes of institutions which attract business. Instead of monopolizing busy corners, they should be set back a block or two from the main thoroughfare, where it will be found that they will secure every advantage to be offered, yet will not detract from the usefulness of a business center.

Large hotels accommodating transients seldom thrive in such localities. Hotels are patronized by tourists and traveling men, and these two classes usually look for their accommodations in the downtown business area. Promoters of such enterprises in outlying business centers seldom make a success of them. Stool restaurants and cozy cafes will do better than cafeterias, as the latter are patronized chiefly by the occupants of the larger office and mercantile establishments situated in the downtown sections of a city.

Efforts to boom a budding business district, other than by thoroughly legitimate methods such as new lighting systems, and the bringing of more adequate public service facilities, seldom are successful. Growth is a gradual process which takes place over a period of years, and mere spectacular display and circus methods seldom prove effective.

One of the most potent methods of building up a growing district is the erection of appropriate and artistically designed business blocks. These need not be of a highly expensive character, indeed, it is a mistake to build beyond a neighborhood's requirements. Mere display in the form of five or six story fireproof structures, or other fancy building programs may be followed by the investors finding that they cannot collect an adequate return upon their investments. Good looking two and three story structures properly designed by capable architects, and honestly built, will lend a charm and air of prosperity to a neighborhood, which will soon reflect higher rentals, and the at-

tracting of a better grade of buying power to a section than would come to one improved with small, one story, wooden shacks.

In recent years there has been a new element which has projected itself into outlying business centers, and that is the establishing of branches of large chain store concerns. Some of the more enterprising five and ten cent stores can now be found in the more active of these business sub-centers in the larger cities. Dainty little stores, selling women's clothing, shoes, and men's haberdashery are now to be found represented in such sections. Local merchants can seldom compete with the up-to-the-minute business methods and buying capacities of the chain stores, nevertheless such institutions pay excellent rentals, and property owners nearly always benefit by their presence. Business has come to learn the meaning of the old phrase "the survival of the fittest" when chain stores are considered.

In the larger cities it is found that intensively developed sub-centers of business exist in foreign neighborhoods where the residents do practically all of their buying in the stores of friends and relatives. Creditable business sections are maintained in many of these foreign communities, the community leaders in many instances being heavily interested in a financial way in the business properties where the best stores are maintained. High rentals are often obtained in such sections.

Outlying business centers seldom begin to develop in a city until it nears the 100,000 population mark. The reason for this is that it is convenient in smaller cities for nearly everyone to get downtown to do shopping. As a city's boundaries expand, however, it takes longer to make the trip to the principal business center and enterprising merchants open small stores to meet the business demand. By careful development these centers grow and expand into definite commercial communities.

The fact that centers of this sort are almost certain to come into being at important cross roads at the edge of a large city is so well recognized that there are real estate investors who are ready to buy in such localities far in advance of the market. A wait of several years brings transportation facilities in most instances. Then comes a school and a church and the little city is in full swing, growing just as rapidly as the general territory builds up with homes. Tremendous advances in business prop-

erty values have been noted again and again in cities all over the country, and the wise investor will not go far astray if he will make a careful analysis of prospective business centers with the idea of getting in early and buying or leasing advantageously situated corners which later may teem with business life and become a modified type of a city's central business district.

Zoning laws which are being adopted in many cities have exerted a curious effect on business sub-centers. A zoning law is designed to restrict the use of property for specific purposes, and to prevent encroachment of undesirable classes of business into residential areas. In adopting a zoning law, certain sections are usually set aside for retail business purposes. A certain quantity of land is thus given a monopolistic privilege to house business enterprises. There is just so much of it, and when it is all built up more may be added, but it will come slowly at best. It has been noted that within a few months after the passage of a zoning law these restricted business districts have often enjoyed a distinct boom, and that property values have increased rapidly. Having this condition in mind, a survey of the situation in advance or just after the passage of a zoning law may help an investor to gain possession of property, which within a year or two is almost certain to take on added value by reason of the intensive business purpose to which it may be put.

Intelligent and persistent efforts on the part of property owners whose interests are located in or near one of these business centers,—or in any small town for that matter—to join in any reasonable efforts to build up the section is almost certain to mean a distinct enhancement in realty values as indicated by the rentals paid for stores and business property.

CHAPTER 23

PERIODS OF INFLATION AND DEPRESSION

Booms and panics and how they develop—How early boom days in real estate came about—Babson's idea of the business cycle and its ten stages—The psychology of booms—When shall an investor quit the field?—What Washington Irving thought of booms—Booms start with heavy sales and profits on speculative stocks—Old time depressions cannot occur again on account of Federal Reserve Banking System—John Stuart Mill on business cycles—Another keen student's ideas—Law of supply and demand is immutable—Periods of inflation and depression can seldom be side-tracked—Four things to do when the boom has spent its force, and is about to collapse.

Booms and panics are the bugaboo of investors.

Fortunes have been begun or built up during periods of real estate inflation. The United States is a comparatively new country and there is constantly abroad a spirit of investment adventure that prompts and fosters booms which are often followed by serious depressions in which the persons who have loaded up with unsalable property, and who are not in a position to "carry on," lose their equities before the tide turns and the new cycle swings around to prosperous times again.

With the opening of new territory in this country during the last century or two, booms have taken place periodically while new towns were being established "at the end of steel," which was the term applied to the new settlements which sprung up at the temporary termini of railroads engaged in spreading out their tenacles into new territory.

It was the general experience that people passed by established districts served by railroads and hurried on to newer territories where land was cheap. Many people flocked in to these sections hopeful that they could acquire land at low prices which would later materially increase in value with the coming of transportation. Then a boom ensued. Everything was infected with a speculative value. Money was plentiful, and business roared along with high prices prevailing. Good times were in evidence for a while, then the attention of many of the fortune hunters was diverted to new fields, and the boom gradually flattened out. Nearly every western town has experienced its boom, although

no eastern city of any consequence has escaped the infection at some time or other.

New railroads, discovery of oil, opening of new canals, new irrigation projects developed to completion have all been causes of real estate booms. Periods of prosperity following great wars likewise have prompted tremendous real estate activities in cities. Following a period of building repression, such as occurred in the United States during the Great War, there followed in 1919 and 1920 booms in real estate in many sections. Nor was the land boom confined to cities alone. High prices procurable for farm products during the war caused a rush on the part of certain types of farmers and investors to corner farm land. The war ended, exporting of food products ceased, rural land prices fell, and the boom was speedily transferred into a depression.

Many economists believe in the theory of cycles in business, claiming that depressions invariably follow booms in ceaseless procession—that they are as inevitable as that night follows day.

Roger W. Babson, business analyst, maintains that there are ten definite stages in the business cycle as follows:

1—Period of increasing money rates.

2—Period of declining bond issues.

3—Period of declining stock prices.

4—Period of declining commodity prices.

5—Period of declining real estate values.

6—Period of low money rates.

7—Period of increasing bond prices.

8—Period of increasing stock prices.

9—Period of increasing commodity prices.

10—Period of increasing real estate values.

"It may be seen," continues Mr. Babson, "that during a depression the decline in real estate prices comes after bonds, stocks and commodities have declined, and that during a period of prosperity an advance in real estate values comes after the advance takes place in bonds, stocks and commodity prices. While land values fluctuate to a certain degree with general business conditions in a growing country like ours, the general trend is always upward, hence any decline in the value of land

during a period of depression is usually slight and is often merely a halt in the upward movement."

The psychology of highly speculative movements of real estate during boom times is interesting, and more or less mysterious in character.

"It can't last," says the banker as he sees increasing activity in real estate. Sales are being made in large volume, prices are rising over night, huge profits are rolling up on individual deals, and the banker, being so close to the investment picture, cannot realize that it is real and sound. Months afterwards, while the boom is still in progress, he berates himself that he was not wise enough to participate.

"When shall I quit?" is the problem the real estate operator worries about as he buys and sells in almost a frenzy during boom times. Deal after deal rewards him with profits. Sometimes he is blinded to the inevitable slump which seems always to follow periods of great real estate activity. There seems to be no way of measuring the length of time it will take a boom to run its course, yet there are danger signals, which flash their warnings to the cautious investor who is chiefly interested in protecting his capital. There may be no valid reason why he cannot participate in the early stages of a boom, but when values soar beyond a point which he regards as being safe, he will do well to gradually dispose of those holdings he does not mean to carry over, and relieved of such surplus baggage he may prepare for the inevitable slump.

"Times of unexampled prosperity," said Washington Irving, "are weather breeders of trouble. Every now and then the world is visited by one of those delusive seasons when the 'credit system,' as it is called, expands to full luxuriance; everybody trusts everybody; a bad debt is a thing unheard of; the broad way to certain and sudden wealth lies plain and open; and men are tempted to dash forward boldly, from the facility of borrowing. Promissory notes, interchanged between scheming individuals, are liberally discounted at the banks, which become so many mints to coin words into cash; and as the supply of words is inexhaustible, it may be readily supposed what a vast amount of promissory capital is soon in circulation. Every one now talks in thousands; nothing is heard but gigantic operations in trade;

great purchases and sales of real property, and immense sums made at every transfer. All, to be sure, as yet exists in promise; but the believer in promises calculates the aggregate as solid capital, and falls back in amazement at the amount of public wealth, the 'unexampled state of public prosperity.' Now is the time for speculative and dreaming or designing men. They relate their dreams and projects to the ignorant and credulous, dazzle them with golden visions, and set them madding after shadows. The example of one stimulates another; speculation rises on speculation; bubble rises on bubble; everyone helps with his breath to swell the windy superstructure, and admires and wonders at the magnitude of the speculation he has contributed to produce. Could this delusion always last, life would indeed be a golden dream; but it is as short as it is brilliant. Let but a doubt enter, and the season of 'unexampled prosperity' is at an end. The coinage of words is suddenly curtailed; the promissory capital begins to vanish into smoke; a panic ensues and the whole superstructure, built upon credit, and reared by speculation, crumbles to the ground, leaving scarce a wreck behind.

"When a man of business, therefore, hears on every side rumors of fortunes suddenly acquired; when he finds banks liberal and brokers busy; when he sees adventurers flush of paper capital and full of scheme and enterprise; when he perceives a greater disposition to buy than to sell; when trade overflows its accustomed channels and deluges the country; when he hears of new regions of commercial adventure; of distant marts and distant mines swallowing merchandise and disgorging gold; when he finds joint stock companies of all kinds forming; when he beholds the streets glittering with new equipages, palaces conjured up by the magic of speculation, tradesmen flushed with sudden success and vying with each other in ostentatious expense; in a word when he hears the whole community joining in the theme of 'unexampled prosperity,' let him look upon the whole as a weather-breeder and prepare for the impending storm."

It appears that the infectious fever in a boom starts with trading, in a large way, in speculative stocks. Soon real estate attracts the attention of the man with ready money easily acquired. He sees an opportunity to buy land, erect buildings and sell them at a profit. Soon the fever spreads. People are like

sheep during a boom period. They hear of some friend who has made a substantial deal in real estate, and promptly plunge into the market, buy and sell feverishly, applying such knowledge of conditions as they may have at their command. If they do not grow too greedy, and gradually, but definitely drift out of the market before the boom has reached its peak, and the decline begins, they may view the battle field with considerable satisfaction, retiring with a reward for their activities. It is the one who does not heed the warnings, and who hangs on for prices to go still higher that is likely to suffer an ignominious defeat and loss of capital.

While booms are likely to continue, it does not seem probable that this country will see a recurrence of the old time depressions such as this country experienced in 1872, 1897 and 1907. With the coming of the Federal Reserve banking system, there was injected into the business life of the United States a balance wheel which is able to do much toward tempering the severity which accompanies most business disturbances. Business is not permitted to take the high swings it used to, nor is it allowed to go as low as it went in the years mentioned. While some well intentioned persons criticise the officers of the system for what they claim is unwarranted interference with legitimate business activities, nevertheless the system does act as a check upon abnormal business activities. Controlling the lending sources of the nation's credit as the system does, it chokes off the supply of funds before a boom ascends to dangerous heights, and by reverse action assists when business is in the slough of despondency.

The great economist, John Stuart Mill, in referring to the cycles in business which culminate in booms said:

"After each panic or crisis the first three years will witness diminishing trade, lack of employment, falling prices, a lowering rate of interest and very considerable distress. Then will be three years of active trade, slightly rising prices, fair employment, improved credit. Then will come three years of unduly excited trade, in which speculation will be rife, prices will rise rapidly, and an unusual number of new enterprises will be begun. The tenth year will be one of crisis, followed by three years of depression."

A close student of business cycles, who has carefully studied booms and depressions has this comment to make:

"A boom is a convalescent panic. A panic is a bursted boom. The business interests of the country are always either on the up grade or on the down grade. The credit system for the transaction of business is responsible for both the boom and the panic. If all business was done on a cash basis there could be no panics; neither could there be any booms. A boom is a speculative condition of the market during advancing prices. A panic is the condition of the market after prices have reached the highest point possible, and have begun to recede. If no one was in debt for his property—real or personal—at the time that prices began to drop there could be no panic, for each individual would still own his own property, and it would make no difference to him whether it was worth one thousand or five thousand dollars. If, however, he owned property valued at five thousand dollars and was in debt for it to his neighbor to the extent of three thousand dollars, and its market value should drop to two thousand dollars, it would require the entire property and an additional one thousand dollars to pay the neighbor, and the man's interest in the property would be entirely wiped out. This would be a panic for the man—in fact it would be pretty near a panic for both of them."

F. A. Lange, another authority on this subject, is inclined to believe that speculation, as such, is a good thing, for he says:

"Speculation, though at first pursuing its own interests, has contributed more than any prince, minister, philosopher or philanthropist to provide Europe with the means of communication, to regulate commerce, to give more solid and real character to business, to keep down the rate of interest, to extend and consolidate credit, to limit usury, and to make fraud more uncommon."

In large cities an almost certain sign of the ending of a real estate boom is the undue extension out into the suburban districts of apparently uncalled for subdivision operations. When vacant property is cut into small lots, without the advantage of public service facilities, and these lots sold for the mere purpose of affording profit to operators and buyers alike, and where comparatively little effort is made to build up such subdivisions with

homes; where, indeed, there is no population to fill homes if they are built, then it is time for the investor to seek cover, for it seems to be an almost unfailing sign that the end is at hand, and "the bottom is going to fall out of the market."

It is, indeed, a difficult matter to tell an investor or speculator when to quit speculating when a boom is in progress. He will have to watch the signs, such as they are, and be properly warned that he is taking risks, the time of taking mere chances having passed. Many a man has found himself loaded up with property with little money to meet the obligations coming steadily due in the way of taxes, special assessments, interest and payments on principal.

Periods of inflation in real estate develop slowly. Sometimes they take several years to reach their peaks. Depressions, on the other hand, sweep ruthlessly down upon the unsuspecting participants. Booms come from an engendering of confidence, a confidence which once destroyed is not easily restored. Recovery comes slowly, and sometimes it is years before a community will have the courage—or nerve, as it is popularly called—to stage another boom.

The law of supply and demand is immutable. It applies to real estate, as it does to every other commodity. We can protest against it, but cannot abolish it. When houses and apartments are scarce, rents are high. When there follows a plethora of building, vacancies occur, and rentals gradually readjust themselves on a lower basis. When, because of the curious psychology of a boom, more property is subdivided or more buildings created than can be properly used, there inevitably comes a depression with all of the evils that accompany it.

It is impossible to sidetrack a period of inflation which seems to come periodically. It is a mass creation which sweeps along like a tornado, beyond the control of man to direct its course, or prevent its consequences. In its early stages, it is like a great wave, tempting to the naturally speculative person, who is prompted to slip into the rising billow and be carried along to fortune. There are opportunities to escape, but few have the wisdom or strength to swim back to shore while the ebb-tide is still mild or sluggish. Some stay on until they are swept out to their doom.

If you are determined to assume a risk and dabble in real estate during boom times, be prepared to observe these conditions:

1—Set aside a certain amount of money which you are ready to risk, even lose, if necessary, and operate with it. Don't endanger your permanent capital.

2—Don't go into operations which are beyond the scope of your capital. Play around with the small and interesting properties which are likely to move readily. Seek easy terms so you can unload to someone else, without discomfort to yourself or to your buyer.

3—Watch your market, and when you see prices go skyrocketing beyond a point you consider safe GET OUT OF THE MARKET AT ANY COST.

4—When subdivision activities assume unusual proportions, and the general public gets to gambling in unimproved lots, consider that a sure sign that the end is near at hand, and prepare for the storm that is sure to follow.

5—If you can't afford to lose money in real estate, stop operating or investing when you perceive that a boom market is in progress. You may make a lot of money continuing, but, on the other hand, you may become hopelessly involved, and lose everything you own.

Like Damocles' sword, a boom may create conditions which may hang suspended for a long time, and then suddenly, due to unforeseen circumstances, the hair may break, and the sword may come hurtling down, crushing out your very business existence.

CHAPTER 24

OWNING YOUR OWN HOME

A problem to many—Sentiment, investment and a compulsory saving program, the three controlling elements—Hard to save the first $1,000—Standards change with people—About 25% of family's income can be expended for rent—How homes are purchased on the installment plan—Ten reasons why you should own your own home—Dwelling houses not very good investments—Example of the family that bought its first home—Don't buy a home blindly, but after careful investigation.

"Shall I own or rent my home?"

This is a question that puzzles many, but few persons attempt to analyze the reasons they may have for arriving at a definite decision.

The subject is of importance to the average person. To be carefully considered, it must be viewed from several major standpoints:

1—Sentiment.

2—As a means of compulsory saving.

3—As an investment proposition.

From the standpoint of sentiment, there is only one answer, and that is that as soon as possible you should own your own home. Around the word "home" are woven all of life's sweetest sentiments. Pride of ownership is enjoyed to no greater degree in any other possession which comes to mankind. It anchors one to his home town, and makes a good citizen of a man or woman as no other influence can hope to do. A home owner takes a greater pride in the way his city is maintained and built up. Home ownership is the bulwark of the nation, the citadel of family life. A nation of home owners will always be a contented and prosperous people, each family eager to do all it can to build up a community and make it a worthy and pleasant place in which to live.

You can build a house, but it takes infinitely more to create a home. Edgar A. Guest, poet of the American home, and an old friend of the author, has these homely phrases to say about the home:

"Home ain't a place that gold can buy or get up in a minute;
Afore it's home there's got to be a heap of livin' in it;
Within the walls there's got to be some babies born, and then
Right there ye've got to bring 'em up to women good, and men;
And gradjerly, as time goes on, ye find ye wouldn't part
With anything they ever used—they've grown into yer heart;
The old high chairs, the playthings, too, the little shoes they wore
Ye hoard; and if ye could ye'd keep the thumb-marks on the door.

"Ye've got to sing and dance fer years, ye've got to romp and play,
And learn to love the things ye have by seein' 'em each day;
Even the roses 'round the porch must blossom year by year
Afore they 'come a part of ye, suggestions of someone dear
Who used to love 'em long ago, and trained 'em jest to run
The way they do, so's they would get the early morning sun;
Ye've got to love each brick an' stone from cellar up to dome:
It takes a heap of livin' in a house to make it home."

Many a man who has met with great success in investing in real estate learned his fundamentals by purchasing a home. It has been truly said that the saving of his first one thousand dollars is one of the hardest things a man ever does. Many a man has saved this money because he has been eager to go in debt to acquire a home. Starting with a down payment of five hundred or one thousand dollars, he has set up a savings program of a compulsory character that has resulted in a few years in the securing of a sizable equity in real estate which has taught him the value of having a goal to aim at. Knowing that the payments on mortgages and taxes are coming due regularly, he has organized his affairs in such a way that when he bent himself to the serious task of setting aside funds for investment purposes, he has found it easy to follow a steady and consistent plan of saving. saving.

As one's standards in other things in life change with advancing age, so do one's standards of a home change, and it is often only after two or three homes have been purchased, and disposed of, that a man acquires something that begins to meet his ideal. Hallowed by the intimate scenes of family life, his heart clings close to his home and makes him fight harder for success than if he had continued a mere renter of property.

Having acquired enough money for a down payment on a home, the young married couple begins looking about for the love nest of their dreams. Nowadays homes are sold on the partial payment plan, and almost anyone's purse can be satisfied. Do not hesitate to go in debt for a home. Things will work out

right in the long run. It is amazing the way the payments will be taken care of and the mortgages reduced as the seasons go by.

From long observation it has been found that a family can afford to set aside about twenty-five per cent of its income for rent. The average in even the very lowliest of lives is from fifteen to twenty per cent, but comfort can seldom be acquired where less than twenty-five per cent of a family's income is expended for living quarters.

Most persons do not save willingly and consistently. They need the burden of a mortgage to teach thrift in saving for old age, and the proverbial "rainy day." If a man has a fairly steady job and enough money to make a down payment, it is a good policy to begin looking for a suitable home. Better terms, as far as payments are converned, will usually be secured from regularly established companies which make a practice of building and selling homes on the partial payment plan. Upon the depositing of a comparatively small down payment, the complete home is at your disposal. You probably will be given a land contract. When this is paid up to a point representing about fifty per cent of the value of the property, you will be given a deed to the premises, which you will promptly record, showing to the world that you are the owner in fee simple of your own domicile. The balance of one-half the value of the property will be represented in a first mortgage which will be held by the company which sold you the house, or may be transferred to a bank where regular payments may be made until the property is cleared of its debt. Formerly mortgages on home property were carried by banks and other lending agencies for years without any payments on the principal, but now the practice is quite general that the balance remaining unpaid must be amortized by being paid at a given rate each year. When a mortgage is held by a savings and loan company the payments often amount to one per cent per month, but banks will accept as low payments as one per cent of the indebtedness per quarter.

A few reasons why one should own his own home:

1—Home ownership gives a stability to one in a business way, for credit is more often extended to a home owner than to a renter.

2—Your ability to care for your family is best evidenced in the possession of a home.

3—One has more confidence in his ability to encounter the storms of business and domestic existence when a home is at stake.

4—If you have a sudden call for capital, or are in dire distress, money usually can be realized if you have a home to pledge as security.

5—A home purchased on a payment plan encourages the cultivation of thrift, and its continuance throughout one's lifetime.

6—You get a lot of comfort and pleasure in tinkering about, and fixing up your own premises, which effort naturally would not be willingly expended on rented property.

7—The investment, if taken under proper conditions, and from a responsible source, is absolutely safe.

8—Ownership of a home strengthens domestic relations. It will make a wife and mother happy and contented in a way nothing else can hope to do.

9—It furnishes the proper environment in which to raise a family. Children learn new ideals and responsibilities in a home owned by their parents, an element usually absent when property is rented from month to month.

10—It prevents embarrassment to parents who have children, and who are refused accommodations in rented premises, whether it be a house or an apartment. The home owner can snap his fingers at the landlord no matter whether he be beneficent or inconsiderate.

Homes should be acquired and used to live in, not to hold for investment purposes. It is significant that since the Great War the number of individual houses for rent in the cities of this country has greatly diminished. Most accommodations available are in the form of double or two family dwellings, and apartments or flats. With the necessity for intensive housing accommodations, due to increasing prices of land, and soaring building and maintenance costs, it is seldom that the owner of a

house which may be rented for family use realizes much profit on his investment. The result has been that the number of landlords who rent individual houses has greatly decreased. Were these landlords to keep actual account of receipts and expenditures, and figure a reasonable rate of return on their investments, they probably would sell their single houses, and reinvest in more profitable forms of real estate.

Take the case of Mr. and Mrs. Jones, for instance. Being happily married, and having lived with the bride's parents for a couple of months, they determine to begin housekeeping. Having spent several hundred dollars for furniture, they look about for a suitable residence.

"I know of a house for rent," explains the bride's father. "It belongs to a friend of mine who has moved to a new home. He has it listed for sale, but might rent it for awhile. It is an old house in a busy district, and not as desirable as a home in a newer section would be, but it's a good house at that."

Mr. Jones interviews the owner and learns that pending a sale he will rent the house for $50 a month. It cost him $12,000, but it is old fashioned, in a changing neighborhood, and he has placed a sale price of $8,000 on the property.

"I don't like the paper on the parlor walls," declares the bride definitely after looking the place over. The landlord agrees to paper several rooms and paint the kitchen and bathroom. The house is taken on a year's lease, and at the end of that time the landlord figures his expenses up as follows:

Decorating	$ 60.00
Taxes (Assessed for $7,000, 2%, tax rate)	140.00
Water rent	18.00
Insurance	25.00
Repairs	75.00
Expenses	$318.00

The landlord received his $50 per month, or a total of $600, paid out $318, and retained $282, realizing about 3½ per cent on his investment of $8,000!

Is the ownership of this residential property a wise investment for the landlord?

After having occupied this property for several years, Mr. and Mrs. Jones become dissatisfied and determine to own a home of their own. She searches diligently, and after extensive traveling and interviewing many real estate men, finds a new six room house which can be bought for $7500, with a cash payment of $1,000.

"We'll take it," decides Mr. Jones after looking the place over, his chest swelling with pride as he thinks how he will invite his friends in to see his new place and play a game of poker.

Mrs. Jones finds she needs about $300 more furnture, and Mr. Jones discovers that he has to spend $30 for a lawn mower and garden tools, in addition to a lot of other little things he needs to run the establishment.

The house cost Jones $7500, and the down payment was $1,000. He gave back a first mortgage for $3500, and a second mortgage for $3,000, payable $500 per year, both at six per cent interest. At the end of the first year, with the stub end of a pencil Jones sits down and figures out his expenses for the year about as follows:

Interest on first mortgage	$210.00
Interest on second mortgage	180.00
Payment on second mortgage	500.00
Lawnmower, tools, etc.	30.00
Insurance	20.00
Water	15.00
Repairs and additions	55.00
Total	$1010.00

Rather dismayed he discovers that it has cost him $410 more to live in his new house than the amount of rent he paid in the old one, and that he is only ahead the difference between that sum and the $500 he paid off on his new home, or a saving of $90.

Then begin family economies. Mrs. Jones makes over her last year's hat and turns her last summer's dress. Jones gets his shoes half soled instead of buying a new pair. A new baby drops into the picture, and although Jones has secured a raise in salary, the money slips away in one form or another. It takes six years

to pay off that second mortgage, and then seven years more to reduce the first mortgage after having had it transferred to a bank. It is true that the interest due on the mortgage is steadily decreasing, but there are repairs and betterments to be made, painting to be done, tax raises to meet, and other expenses are encountered.

Jones thinks the problem over deeply and finally comes to the conclusion that if he could find a regular landlord like the one who rented him his first house, he would probably be ahead if he let the other fellow own property and permit him to rent it. Of course, in these days, that kind of a landlord has ceased to exist.

There are myriads of the Jones family who are buying new homes each year, struggling along for six, eight or ten years paying for them. Then if Jones drops off suddenly, Mrs. Jones has a nice little estate to fall back upon. She can probably sell the house for more than was paid for it, and with the insurance which Mr. Jones carried, can get along some way. In most cases, however, Jones sticks right on the job until he has paid for his home, and then looks eagerly around for a real estate investment which will pay him adequate returns. In any event, his rent ceases. He has arrived at the stage of life when thrift means something. He has learned the lesson, that a regular income from real estate is satisfying to the degree of skill and astuteness with which it is chosen.

Does it pay to own a home? Isn't it cheaper to live in an apartment where heat and service of all kinds is furnished? Doubtless to the person who can with convenience live in an apartment and be satisfied with that sort of a home, it is cheaper as far as actual expense goes. The charm of home ownership, however, can never be enjoyed in an apartment, particularly if there are children to rear.

Don't enter blindly into buying a home. Analyze carefully the burden you are assuming. Do not be alarmed if you find that buying a home is a slow operation, for it is well worth while, and you certainly will never get anywhere by always living in rented quarters. No other incentive than a compulsory program of saving resulted in Mr. and Mrs. Jones owning their own home, and they are content to have struggled. This pro-

gram has been followed by millions of successful and contented families, and there is scarcely one who will say it has not been worth while.

Do not buy a home as an investment, although under some circumstances it later can be sold at a profit. Consider it a duty to yourself, and an obligation to your wife and family. Consider your home your life anchor, and go about this business as early in your married life as you can. If you can make a substantial payment so much the better, for the quicker the debt will have been lifted, and the home declared yours.

Buying a home offers a problem which the circumstances of each family must justify. Home ownership carries with it benefits and burdens which must be carefully weighed one against the other. It is very similar to the problem that presents itself when the consideration concerns the number of children desirable in any family. From an investment standpoint children often are a liability, as far as the actual expense of rearng them is concerned. But where would the world be today if this consideration ruled the universe?

"Wisdom is the principal thing; therefore get wisdom, and with all of thy getting, get understanding," is the scriptural injunction.

Isn't it the better part of wisdom to get a home first, and then seriously apply yourself to building up an estate in real estate?

CHAPTER 25

PUBLICITY AND ADVERTISING

A dominant force in business life—Advertising always stimulates realty trading—Intelligent interpretation of advertisements sometimes makes money for investors—How a deal gets under way—Announcements of street openings and new car lines point to investment opportunities—Watch the news and interpret it rightly—How "good buys" are found on the advertising pages of a newspaper—Stories regarding deals show where activity is coming—Premature publication of stories regarding deals sometimes harmful—Gain the confidence of the realty news editor—Favorable publicity useful to brokers—Do not attempt to "double-cross" a reporter—Tell the truth in advertising—Money wasted in non-productive advertising—The best papers to advertise in—Questionable publicity and how it is harmful.

Publicity, which of course includes advertising, is a dominant force in business life. The skillful use of publicity has done much to make money for men engaged in all lines of business, and it can be advantageously used in the buying and selling of real estate.

The selling of real estate by organized companies is always stimulated by the careful and consistent use of publicity. Advertising is only a branch of the wide field of publicity, and consideration will be given first to news stories and the lessons they teach.

Many an investor has made money by the intelligent interpretation of a paragraph or two in a newspaper. For instance, a little item appears some morning in the news columns to the following effect:

> "City Engineer Smith has completed plans and estimates for the widening and extending of Ninth Avenue from a point where it now ends at Center Street, for a distance of two miles out through a district already built up extensively with homes and crossing Sixteenth and Twenty-Fourth Streets, two main crosstown thoroughfares. The new street will be one-hundred feet wide, with a center strip of twenty-four feet for street car tracks, two twenty-eight foot automobile roadways on each side of the car track reserva-

tion, with ten feet for sidewalks on each side. Action will be taken by city council at its next session to confirm plans to proceed with the work, which probably will begin next spring, and be hurried to completion."

To many readers that little story meant nothing, except a little more convenience in getting to a section of the city somewhat inaccessible heretofore. But to some keen real estate investor it means a lot more. He climbs into his car and goes to the city hall, and has a look at the plans for the new highway. He carefully notes where the new street will intersect with Sixteenth and Twenty-Fourth Streets, and then he secures the names of persons who own property, which will later become corners on the new intersections He goes out quietly to the proposed intersections and looks things over. He finds a scattering of houses in each district, surrounded by new subdivisions whose promoters are perhaps having a rather hard time selling lots. Gazing placidly on the scene, the investor sees exactly what is going to happen several years later, so he rides downtown, and drops into the office of a real estate broker in whom he has confidence.

"I've got a little job for you," he explains to the broker. He shows the broker the newspaper clipping, reviews his notes taken at the city hall, turns over the names of owners of property which will be on corners, and then gets down to business.

"Those corners are going to be ready for business in a couple of years. Go buy them. Get them as reasonable as you can, and buy them on the best terms you can secure."

The broker proceeds to the territory, interviews the owners, and gets exclusive sales contracts or options as the case may be. A day or two later the broker again calls on the owners, and the properties are bought. Probably those owners never took the trouble to find out anything about where the new street was coming through. Perhaps they did know they were going to be on corners, but rather resented their privacy being interfered with. Even realizing they were becoming possessors of corner property in a neighborhood which was going into business, they probably did not realize the values which would come after the improvements were installed, and business began to grow there. It is in this way that some operators in real estate make money.

They scan the newspapers regularly, and try to analyze every piece of news which may reflect a changing condition in some section of a city.

Sometimes a new crosstown car line is announced, which will intersect with other lines. Instantly several keen investors will begin quiet campaigns to acquire property which will later greatly increase in value. In large cities announcements that subways are to be built start a quiet investigation on the part of investors to discover where the subway stations are to be located. Instantly this is known the corners affected become prizes which many investors will bid for.

Watch the news. Interpret it in its relation to real estate expansion. Newspapers are grinding out valuable information almost every day. If you desire to invest in real estate learn to know what the announcements portend, and then have courage enough to go ahead and get in "on the ground floor."

Investors quite frequently learn of "good buys" from ads inserted by brokers or owners. They make a business of watching the papers closely for these.

Announcements of deals sometimes indicate to the wise investor a trend of growth which may later develop into a boom. When several properties in a locality have changed hands, it is wise to ascertain the reason for the activity which is represented by such sales.

Unusual activity, followed by numerous sales, is due to definite causes. The newspapers sometimes will be found to be directories as to these causes.

Premature publication of news stories concerning real estate transactions sometimes does great damage to the plans of brokers, investors, and real estate speculators, who are anxious to quietly get control of several pieces of property. Announcement in the newspapers, for instance, that most of the land in a city block has been acquired for the erection of a large department store will start a buying fever in the entire neighborhood, for certain classes of non-advertising concerns like to snuggle down near such large enterprises, and enjoy the reflected trade which heavy advertising nearly always brings. If, before all the property is securely acquired by the brokers or owners of the new store, a

news story is printed that the establishment is to be placed there, it will be found practically impossible to buy the remainder of the property at anything like reasonable prices. Many such large stores have found it impossible to buy small corners, and in cities throughout the country are to be found examples of adjoining owners holding up the promoters of new improvements by asking unreasonable prices.

It is a good plan, if possible, to gain the acquaintance and confidence of the real estate editors of the daily papers in a city where you are operating. Treat these men fairly and squarely and they will not betray a confidence. Such reporters sometimes carry stories around in their heads for weeks before publishing them, patiently waiting for some detail to be closed which will permit an announcement of profit to everyone.

"Double cross" a reporter covering the real estate field, and you may look for trouble. At some time or other he will learn of some operation you are interested in, and he will almost certainly make some reference to it that will cause you trouble, if the property concerned has not been finally secured before the reference appears in the press.

Favorable publicity in newspapers is most useful at times in working out real estate transactions. This is particularly true of the operations of brokers who are continually buying and selling. They appreciate having their accomplishments presented to the public in as attractive a light as possible.

If you have an announcement to make concerning a deal, write out your own copy in as complete detail as possible, giving every possible fact and figure you can think of. Then call in the real estate editor, and hand it to him, permitting him to ask further questions as he desires. If he learns that you always play square with him, he will give you liberal space, usually using your story in as complete a form as possible.

If a reporter discovers you have a deal under way, do not bluster around and deny it. Explain to him its details, and tell him that premature publication will probaby ruin it. With scarcely an exception, he can be relied upon to maintain it in confidence until it is ready for publication. If another reporter from a rival paper does not come to you, do not attempt to convey

the news to such a rival, for the reporter is entitled to his "scoop," particularly if he has not, at your request, published the news. There are certain ethics newspaper men observe. If you act fairly with them, they will not violate a confidence or betray you.

In selling a property, the best advertising medium usually will be one daily newspaper in your community which specializes in real estate advertising. There usually is one paper which predominates in its appeal to readers seeking information about real estate. Buyers who are acquiring investments usually scan this paper regularly for what it has to offer. An advertisement inserted in its columns will usually bring prompt response. In many instances you may be wiser if you place the sale of the property in the hands of a competent realtor. He will earn his commission by securing you a better price and relieve you of many annoying details.

Tell the truth in advertising. The word "bargain" has been worn threadbare on real estate advertisements when no bargains exist. There are few genuine bargains that ever get as far as the pages of a newspaper. Discount an advertisement in which you see the word appear. If the market is active, there will be no bargains. State the merits of your property clearly, and, if possible use an illustration. Pictures in real estate advertisements help to sell property as nothing else will do.

A great deal of money is wasted in non-productive real estate advertising. The advertiser is being continually pestered to use such mediums as theater programs, street cars, billboards, class publications, and the like. These mediums may be all right for certain kinds of advertising, but under normal circumstances they do not sell real estate of an investment character, and money spent in such mediums is usually thrown away as far as any practical return is concerned.

In selling a specific property direct mail advertising is often effective. By selecting a well chosen list of several hundred persons who may be interested in such a property, and able to buy it if it appeals, and then sending such a list personal letters, or attractively designed and properly illustrated circulars, some excellent prospects may be obtained. These, of course, must be followed up if a sale is to be made.

Newspapers frequently will carry news stories concerning the plans of corporations or individuals who intend to expand their businesses. This information often is useful in securing a buyer for a particular property, which an investor may have for sale, and which he considers well adapted for use. Almost daily "tips" of importance will be gained by a close reading of the news and advertising sections of a newspaper.

In any medium or large sized city there will be one daily or weekly publication which will give a list of the real estate transfers whch are passing through the recorder's office. A close watch of such transfers, if one has the time to do so, will often reveal interesting developments in different parts of a city. This knowledge frequently may be put to good use in the buying or selling of property.

News about building operations, and the volume of permits being issued for new buildings is frequently indicative of active movements in central or suburban real estate, and it is well worth while to keep in contact with such operations. From time to time interesting bits of news will appear which may be weather vanes of a city's development.

Bad effects of undesirable publicity may be seen at times. An ill considered reference by some newspaper to a locality as being a "red light district" will place a curse on the territory which may be hard to erase or overcome for years. Because of such a stigma, property values may be visibly affected within a short time. Newspaper stories about raids on bootleggers or other undesirable characters may have a similar effect. A riot, a murder or some other unpleasant incident, may blacken the name of a street or district to a degree that real estate may be directly affected.

On the other hand, favorable publicity about a section may prove helpful in boosting it, so that attention will be given it by investors and others. Neighborhood associations sometimes help their cause by advertising and publicity campaigns in newspapers, which reap a benefit far beyond the cost involved.

Publicity of a questionable character given to a person who has been a prominent or successful investor may cause such a person irreparable damage, and almost immediately eliminate

him from the market. Business men generally will avoid him, banks will refuse loans, public confidence will be disturbed, or entirely lost, and there is little left for such a victim to do but to move to new pastures. Even in the new locality his sin may find him out, unless he operates secretly through brokers.

Publicity is a mighty weapon which may make or break a person towards whom it is directed. Favorable publicity may help an investor make money, and undesirable publicity may interfere greatly with his work. Care should be taken, therefore, not to do anything which may invite unfavorable publicity towards an individual or an operation in which he may be interested.

CHAPTER 26

SOME THINGS AN INVESTOR SHOULD KNOW ABOUT THE LAW

A knowledge of legal matters helpful—Oral contracts unenforcible—Contract to sell must be in writing—The significance of possession—Adverse possession and what it means—Estates in land—Real estate titles—Building restrictions—Problems regarding fixtures—Two kinds of delivery, personal and in escrow—The Torrens system of land registration and what it means.

A knowledge of some of the more important legal matters connected with the buying and selling of real estate, while not absolutely necessary, is very useful to the investor, who during the course of his operations picks up a smattering of law which he tries to amplify from time to time, as the opportunity presents.

Negotiations for the selling or purchasing of real estate are usually culminated by the preparation and signing of agreements or contracts. Any contract with reference to the transfer of any interest in land must be in writing to be legally enforcible. The kind of estate to be transferred is immaterial.[1]

A contract for the sale of the entire fee or one for the lease of a house for a month are alike unenforcible, if such contract is an oral one. There is a prevalent opinion that a part payment of the purchase price or of the rent is sufficient to make the contract good, but such is not the case.

While it is necessary for the contract to sell real estate to be in writing, a principal may authorize his broker to enter into such a contract of sale in his behalf, although such authorization be by word of mouth only. In this connection, it is well for the real estate broker to remember that when the principal places property in his broker's hands for sale, he does not thereby authorize the broker to enter into a contract binding the principal to make a conveyance. Authority to make such a contract must be specially given, and will not be implied from a mere authority

(1) All legal references in this chapter are based on the state laws of Ohio. Familiarize yourself with the laws of your own state, as differences are to be found in various states.

to sell. The principal has a right to refuse to sell to the purchaser presented by the broker to whom he has given no express authority to contract, even though it may well be that the broker has earned his commission by procuring a purchaser ready and willing to perform.

A third reason why the writing is so important is because of a rule of evidence to the effect that the contents of a document may not be contradicted, altered, added to, or varied by oral evidence. It is obvious that there would be little security in written instruments if a party to a writing could at any time show that the actual oral agreement differed from the writing. In the absence of fraud or mistake, therefore, the courts will enforce the rule of evidence mentioned. It is accordingly essential that the agreement or conveyance state exactly what the parties agree to do.

The matter of possession is worthy of consideration. Originally even the fee simple was transferred merely by a delivery of possession. The grantor or seller made what was called livery of seizin, or delivery of possession. He merely went on the land and there delivered to the grantee or buyer a twig or clod as a symbol, and thereby invested grantee or buyer with the fee. Now that an instrument in writing is required to convey the fee, great emphasis is still placed upon the matter of possession. For example, the grantee, as a general rule, is charged with notice of the rights of the person in actual possession, to the extent that he could, by reasonable inquiry, have ascertained the nature of such rights. It will not avail the grantee that he has an abstract which indicates a perfect title in his grantor, if there is in possession a person with equities superior to the grantor. The purchaser should always ascertain the rights of the man in possession.

So much emphasis is placed upon possession that title passes to one who has held land adversely for a period of twenty-one years. It is not essential that any one person so hold for the period named. If one transferred to the other, several holders may make up the required time. An adverse holding need not be with an intent to deprive another of his title. Smith may by mistake place his fence twenty feet over on Jones' farm. Nevertheless, Smith may get title by keeping his fence there, and using the land for twenty-one years. It is to be noted that title actually

passes to land held adversely for the state's statutory period. This title would not revest in the record owner of the paper title even should the holder later abandon the land adversely held. Since these titles by adverse possession do not appear on the record, it is evident that here is one more instance where an abstract would fail to show a defective title.

Possession is of great importance in taking an oral agreement out of the statute of frauds. Suppose Smith orally agrees to sell Jones a house for $5,000. Jones may pay down any or all of the purchase price, but Smith may refuse to convey because the contract was not in writing. Suppose, however, Smith permits Jones to take possession under the contract. Then the contract becomes enforcible by either party. It is on this principle that most persons rely in the taking of leases without a writing. Although such a lease is unenforcible until the lessee assumes possession, after the lessee does assume possession, he may enforce his oral contract, which has now been taken out of the statute.

A real estate investor should know about the estates which may be created in land, especially estates of inheritance. There are two estates of inheritance, fee simple and fee tail. The former estate is of indefinite duration, and if not alienated by deed or will, passes to the heirs of the holder lineally or collaterally. In the fee tail estate, the land only descends lineally. If land is given to John Brown and the heirs of his body, so far as the duration is concerned, John Brown has only a life estate, and at his death the land is bound to go to the lineal descendants of Brown. or to revert to the grantor. The estate in Brown is said to be entailed, and at one time in England such estates remained entailed for generations. In some states an estate may be entailed for only one generation, and in the case suggested the lineal descendants of Brown would take a fee simple. One cannot convey to another a fee simple in such states, and then restrain the alienation thereof, such a stipulation being deemed in operation as contrary to the nature of the estate conveyed.

Real estate titles easily become somewhat complicated. Consider a simple case which arises very frequently. Suppose William Brown purchases a home, and places it in the name of himself and wife, Mary. Later Brown dies without a will, leaving

surviving him a wife and a minor child aged ten. Often the wife will go to a lawyer and expect him to arrange the matter so that she can dispose of the property at any time. As a matter of fact, she has a title that cannot be conveyed without litigation until the minor reaches majority. Mary Brown has an undivided one-half in fee, and she also has her dower, which is a life interest in one-third of the half interest owned by her husband. The minor owns an undivided one-half, subject to the dower interest. The minor, of course, cannot alienate, and the child's interest can be transferred only on a judicial sale. William Brown would probably have made a will, and devised his one-half to his wife, had he realized just what would be the situation upon his decease.

The matter of building restrictions is becoming increasingly important, especially in cities. A deed is usually construed most strongly against the grantor or seller, and if, therefore, he wishes to restrict the grantee or buyer, he must make the restriction clear and explicit. If the grantor stipulates that the grantee is to use the property for residential purposes only, the grantor cannot complain if the court refuses to enjoin the erection of a double house or apartment. Naturally the court views the restriction as merely prohibiting the erection of a building to be used for business purposes, and says that the grantor should have restricted the property to a single residence by clear words, if he intended such a restriction.

Building restrictions are enforced in equity because fair dealing requires one who buys with a knowledge of a restriction to live up to the agreement to which he has impliedly assented. If the grantee has no knowledge of the restriction, either actually or by the record, he is not bound thereby. The usual system of recording gives notice of restrictions incorporated in any conveyance. Restrictions not appearing in any instrument may be binding on those who have assented thereto, and have notice thereof, but such restrictions are not binding on subsequent purchasers without notice.

Since building restrictions are enforced because of elements of fairness, the court will not enforce a restriction when it would be inequitable so to do. If one wishes to prevent the violation of a restriction by an injunction, he should act quickly as soon as a structure, in violation of the restriction, is commenced. If the

one entitled to take advantage of a restriction delays and gives the impression that he is not expecting to insist on the enforcement of the restrictive covenant, he will usually be defeated in later efforts to obtain an injunction. If a section changes from a residential district to a business one, the court will usually refuse to enforce a covenant not to use certain property for business purposes, since it would be unfair to insist that one having property in what is now a business district shall not put his property to a use for whch it is entirely appropriate.

Puzzling questions arise frequently with reference to fixtures, articles which formerly were personalty, but which by reason of annexation to the realty have become a part thereof. Courts usually consider the nature of the annexation, and seek to determine the intention with which the annexation was made. What would be revocable if annexed by a tenant is often deemed a part of the realty which might be claimed by a grantee. Usually the tenant may remove any trade or domestic fixtures because by annexing them he does not intend to dedicate them to his landlord. The same articles, if annexed by the owner of the freehold, might be held to pass with the realty to his grantee. It is well in case of any doubt to expressly stipulate as to shades, screens, lighting fixtures, and similar appurtenances.

There are two kinds of delivery, the ordinary manual or personal delivery, and the delivery in escrow. Title passes upon the delivery, whether the instrument is recorded or not. A re-delivery of the instrument to the grantor, or a destruction of the instrument does not revest title in the grantor, even when the parties so intend. In a case in Ohio, a husband delivered to his wife a deed of a certain tract of land, which she agreed to take in lieu of dower in his property. Later the wife re-delivered the deed to her husband. At the death of the husband the question arose as to the rights of the wife. It was held that the wife had title to the land covered by the deed, which had once been delivered to her. It was also held that since the conveyance had been made to her during the marriage, she might repudiate her contract and take dower in all her husband's property, instead of the land conveyed to her, if she wished to do so.

Delivery in escrow is a delivery to a third person to be delivered to the grantee upon the performance of certain conditions.

A deed cannot be delivered to a grantee in an escrow, and it is not a valid escrow, if a grantor reserves the right to recall the instrument at will. If the condition is performed, usually the title relates back to the time of the first delivery. If, therefore, the grantor should die before performance of the condition, the grantee upon performance would be entitled to a delivery, although death would revoke any ordinary agency. A delivery contrary to instructions passes no title to the grantee, and it is usually held that a grantee who has obtained the instrument without performance of the conditions cannot pass title even to an innocent purchaser.

In Ohio, a deed which is not recorded is deemed fraudulent against an innocent purchaser. An unrecorded deed passes title, however, and one who knows of an unrecorded deed could take no advantage of the fact that the instrument was not filed for record. The rule should be the same in the case of mortgages, since the purpose of the record is to give notice. Such, however, is not the case under the Ohio statute. Except as between the immediate parties, a mortgage takes effect from the time it is filed for record. The first mortgage filed is, therefore, the first lien. One may lose his priority by failure to record his mortgage, even in a case in which the later mortgagee, who recorded his mortgage first, had full knowledge that there was outstanding a prior unrecorded mortgage.

It is contended by many lawyers that the Torrens system of land registration would greatly help to make land a liquid asset. Without some such system, no one is now absolutely insured against loss without title insurance. The Torrens system is not perfect, but its general adoption would be of tremendous advantage when the matter is viewed in the proper perspective. No class, it is contended, would be more directly benefited by the adoption of the Torrens system than real estate brokers and investors.

CHAPTER 27

LEGAL PITFALLS AN INVESTOR SHOULD AVOID

Technicalities regarding title should be carefully looked into and checked—Defective execution of deeds—Necessity for care in stating names in which property is being bought or sold—Judgments and their effect—Liquor liens and the dangers they carry—Execution of deeds should be properly cared for—Revenue stamps—Property descriptions should always be accurate—Necessity for a survey—Lender of money should protect himself in several particulars—Matters to be watched in taking a long term lease—First mortgage should always be the first lien.

The comprehensive title above should not lead to the assumption that space will permit the discussion of all the possible legal situations that may arise in real estate transactions. Only competent legal advice will avoid the mistakes that constantly occur in real estate matters and the discussion of a few of the things that should be avoided or watched will be of help only as guideposts of danger.

Probably the one most important feature of any real estate transaction is the question of the title to the property. Does the supposed owner have good and sufficient title to the land being conveyed? Is the title one that can be considered marketable or does it suffer from defects? What encumbrances, as distinguished from defects, are shown in the chain of title? These things must be considered, for they are the fundamental basis of any real estate transaction.

Title to property is as shown by the recorded instruments affecting the title and constituting the chain of title from early times to the present day. In most cities of any size there are title companies which make it a business to search titles and issue documents, backed by their responsibility, on the status of the title. In small communities there are lawyers and abstracters who search the title and prepare a record of what it shows. It is on the disclosures there made that the question of whether the title in the seller or mortgagor is good or bad, is answered. If the evidence of title shows all transactions affecting the property down to date, competent advice is necessary to judge whether the record shows good title. If the concern issues a document recit-

ing that title is good and merchantable, then it is the responsibility of that concern that is looked to for redress in the event it is defective.

In smaller communities, where the purchaser knows the seller, property is sometimes conveyed without any evidence of title. The fact that the seller is in possession of the real estate and is generally reputed to be the owner of it is deemed sufficient. It should be recognized, however, that when a purchaser comes to sell again he may be confronted with a buyer who is more particular and the sale may fail on account of the lack of evidence of title. If land was to be held and never disposed of it would probably be sufficient, but the possibility of future sale should not be overlooked. The same thing is true of defects in the title which the first purchaser may be willing to waive but which a subsequent purchaser may object to.

One of the commonest errors occurring in the chain of title to real estate is defective execution of deeds. In almost all the states a wife and husband have dower or some interest in each other's real estate. In order that title may be effectively conveyed it is necessary in such jurisdictions that the deed be executed by both parties. Otherwise the dower or other interest will remain outstanding as against subsequent purchasers and constitute a defective title in that less than full ownership of the property has been conveyed. If at the time of conveyance the grantor is single, whether on account of never having married, divorce or death of the spouse, that fact should be recited to account for the fact that a consort has not joined in the deed. Years later it may be difficult or impossible to ascertain the grantor's marital status and if such a recitation is not made a defective title will result.

If the interest of the consort is not released by execution of the deed, that interest may be asserted when ripe, even as against a subsequent purchaser in the chain of title. That is true, of course, whether the recitation in the deed is to the effect that the grantor is unmarried or not. A false statement made by the one consort cannot bar the other one of his or her rights in the property. However, such a recitation is invariably relied upon and in most instances constitutes sufficient practical security.

Many times individuals are exceedingly careless in the man-

ner in which they take title to real estate. John D. Smith will take title as J. D. Smith or as John Smith. If he takes title in one way he may convey it in another. For instance, he may deed to his grantee as John D. Smith or as J. Smith. From the record there is no way of telling whether the John Smith who became the owner of the property is the same individual as John D. Smith or as J. Smith who later conveyed the property. The difficulty is especially troublesome where the name is a common one such as Smith and John. An individual with a name in common use has enough difficulty on account of judgments showing against his property due to similarity of names without further complicating matters by neglecting to use his full name instead of the initial of his first name.

In almost all jurisdictions there are judgments standing unsatisfied against John Smith and J. Smith and J. D. Smith and other common names. There may be nothing in the case on which the judgment is recovered to show whether the J. D. Smith sued is the same individual as another J. D. Smith, the owner of real estate. Anybody searching the title would not be certain as to whether the real estate was subject to the judgment or not. Extrinsic evidence would be necessary. John Smith, however, by the use of his full name of John D. Smith or John David Smith would not be subject to the annoyance of judgment liens against John C. Smith or J. C. Smith or J. Charles Smith.

While the record title to real estate is generally relied upon, it is not infallible. It cannot and does not purport to show the possibility of liens which have not ripened. The statutes of almost all states provide for a lien to mechanics furnishing labor and material dealers furnishing materials for the construction or repair of a building upon the land. Their right to perfect such a lien usually exists from thirty to ninety days after completion of their work or the furnishing of the material. Anyone purchasing or loaning on a new building or a building recently repaired must ascertain, at his peril, whether any such inchoate lien rights exist or take security against such possibility of a lien in order to be safe. Where the lien period is sixty days the lien may not be perfected of record until the sixtieth day and the purchaser of the property on the fiftieth day may find that there is a lien encumbrance that will have to be paid.

To a more limited extent the same danger exists in the possibility of federal or state liquor liens which may be placed on the property on account of previous illegal sale of liquors and which may be effective as of the date of such sale of liquor and prior to the date of purchase. An investigation of the property and use to which it has been put or proper security against such lien will be necessary to protect the purchaser if there exists any possibility of such illegal acts.

Compliance with the statutory requirements of each state as to the execution of the deed should also be rigidly observed. Most states require the execution of the deed to be witnessed by two witnesses and to be acknowledged before an officer authorized to take acknowledgments. The fact that the grantee in the deed does not have to execute it has sometimes led to the mistake of having him witness the deed. The parties to the deed, grantor and grantee, should not, of course, act as witnesses.

In addition to a proper execution of the deed, to become effective as a transfer of title, the deed must be delivered. Mere execution will not suffice. Deeds have been excuted in many cases and laid away by the grantor with the idea that they would be effective even after his death. Delivery to the grantee or to some third person is necessary, however, in all cases.

As an aftermath of the war, revenue stamps are required on deeds, the rate being fifty cents a thousand. While the federal government cannot interfere with the rights of the respective states to effect the transfer of the property therein according to their laws, yet the obligation to affix the stamps is there under penalty of the federal laws. A deed without the necessary stamps accomplishes the transfer of the property but creates a penal liability.

The description of property, whether in deed, mortgage, land contract or other instrument should be the basis of the matter. Upon the description depends whether the land intended to be conveyed is in fact conveyed. Obsolete and indefinite descriptions have been handed down from generation to generation. At the time they were prepared they were more or less indefinite but the land was, probably, of comparatively little value as compared with the present day. Whether a man's line was ten feet

one way or the other made little difference. Ten feet in the business district of a city may now involve $100,000 in land values.

It should be borne in mind that descriptions that fit farm property will not serve for city property, where, on account of building improvements, lines must be accurately fixed. Running back to the well or old apple tree will not suffice.

On valuable property the lines should be checked by a competent surveyor, both on the ground and through the title. An investor may be shown a piece of valuable land either improved or vacant. He has seen the land and knows where it is. He decides to buy it. A deed containing a certain description by metes and bounds is tendered him, accompanied by evidence of title covering that description. There is no way for him or his lawyer to tell whether that is exactly the same piece of property he examined and intended to purchase or not. The actual location of the described property may be adjacent to the property examined. The discrepancy is seldom so great, however, but many examples might be given where a substantial shortage in the property exists. A vacant lot may be examined and purchased as having a width of fifty feet, whereas an actual measurement may show that there is only some forty feet frontage between the adjacent buildings on each side. The adjacent buildings may have been there during the statutory prescriptive period and cannot be ousted.

In some of these cases no recourse can be had against the grantor on account of the small discrepancy due to the usual saving clause in the deed description, namely, "be the same more or less." That clause which has been customary for centuries is not applicable to city property where the real estate is sold on a front foot basis. Neither is it applicable where there are no fixed monuments in the description but dependence is placd on line measurements. If the measurements are to be qualified by "more or less" they literally mean nothing.

As to property which has been subdivided and the plat thereof properly recorded no necessity for a surveyed description exists. The name of the subdivision, recordation date and number of the sublot is sufficient for the description.

Failure to lay the lines on property by a survey has been responsible in some instances for the erection of a building on the wrong land or partially over on the wrong land. In such case the builder is more or less at the mercy of the person owning the land on which the building has been mistakenly erected.

In loaning money on real estate, it is incumbent on the lender or mortgagee to protect himself in several particulars. The note secured by the mortgage should contain a precipitation clause causing the whole debt to fall due in case of default in the payment of any installment of principal or interest. Otherwise he may find himself in the position of having to sue a defaulting mortgagor each time a payment of either principal or interest is due. He would be unable to foreclose the property for the whole amount.

The mortgagee must also see that he is amply protected by insurance covering the building on the property mortgaged. If the loan is predicated on the security of both land and building and the structure is destroyed by fire his security is depleted unless the proceeds of the policies are payable to him as mortgagor. Lack of insurance or failure to have added to the policies such a rider may be equally disastrous.

In taking a long term lease on real estate, the lessee or tenant should be sure that there is no mortgage on the fee ahead of his lease, or if there is such a mortgage that the priority thereof is waived in favor of the lease. Otherwise, in case of default by the lessor in the payment of the mortgage when due, it may be foreclosed and the lease be cut off. Any valuable improvements erected by the lessee would be lost to him. If the mortgage is waived in favor of the lease that danger is obviated. On the other hand, the investor owning the mortgage in such case should get an agreement from the lessee not to pay the rents in advance. The lessor may mortgage his rents by accepting payment thereof from the lessee at a discount for a long period in advance. If the mortgagee of the fee, in such case, foreclosed on his mortgage he would then have the land subject to a lease, the rent of which had been paid for a long period in advance, and, therefore, no income from the leased premises. Such an agreement from the lessee will obviate that difficulty.

The real estate investor, carrying a first and second mortgage on his property where the first mortgage becomes due prior to the second mortgage or where there is a possibility of desiring to refinance the first mortgage without paying off the second mortgage, should be careful to see that he has a waiver from the second mortgagee in favor of any subsequent first mortgage placed on the property not in excess of the existing first mortgage. Without such a waiver he will find it impossible to refinance his first mortgage by another first mortgage loan without paying off the second. The second, on payment of the first, will automatically step up as a first lien if such a waiver is not obtained.

These suggestions as to possible pitfalls are among those which an experienced investor will be cognizant of and careful to avoid. These are no more, or of no greater degree, however, than exist in any other business enterprise of which the average man has still less knowledge.

CHAPTER 28

THE WOMAN IN REAL ESTATE

Women may succeed as well as men—Few women in the real estate field—Study the business and read the good books on the subject—The woman apartment house builder—How women build and furnish dwellings, and sell them—How a woman investor can make money—Selecting property which will bring a profit—Deal through an honest broker—The woman with funds to invest, and why she sometimes falls into evil hands—Beware of the "get rich quick" schemes in real estate—Be cautious about signing papers you do not understand—Seek competent advice—Leasing houses and apartments for hotel purposes—A woman's rights under dower laws—Four interesting facts about dower—Twelve things for women to remember in buying and selling real estate.

A woman may succeed in real estate operations equally as well as a man, provided she steadily follows the same fundamental rules that any investor must learn and abide by.

Comparatively few women have entered this interesting and profitable field in the past. This has been due to the fact, doubtless, that the great mass of investment funds are for the most part at the direct disposal of men, to whom has been left the placing of such funds in real estate and other securities. Women in recent years, however, have invaded many new business fields, and more women may be expected to enter this one from year to year.

Women, because of their lack of opportunity and training have not evidenced much interest in buying and selling real estate, because they have seldom had the opportunity to study the business, and secure the proper contact with it. In some cities, there are instances of women having made a signal success ot this work. Akron has an active woman realtor who has met with success, as have women in a number of other cities. Oak Park, a suburb of Chicago, has a woman who cleverly supervises the advertising department of a large real estate firm which she and her husband conduct.

In many cities women have been active in a sales capacity with some of the larger real estate firms. They usually enjoy selling houses, as they are familiar with the problems of home maintenance, and often are able to present properties in a more attractive light than men can do. In the operation of all large

real estate offices women are invaluable in the accounting and stenographic departments, and sometimes ascend into more important branches of the business as their terms of service grow in extent.

In Cleveland there is a woman apartment house builder who has erected a number of structures and disposed of them. She seems to sense those things that make an apartment livable, and designs and erects buildings which have refinements which secure for them a ready sale.

In Los Angeles a number of women have specialized in erecting attractive homes, furnishing them tastefully and artistically, and then selling them at a profit to new comers. They engage in only one or two operations a year, and often move into and occupy their newly created properties until they are sold. They realize profits ranging from $2,000 to $5,000 a year, in addition to having a rent free home to live in.

Women, for some reason or other, have seldom been conspicuously successful in the brokerage of business properties. They do not seem to be as greatly interested in that branch of the business as they are in the handling of homes. Mere man, indeed, may still feel himself a superior being, and decline to be told how to invest his funds in income properties by a woman broker. There are, of course, exceptions to this, as there are to all rules.

There are many women who are interested at times during their lives in investing their own funds in real estate. Nowadays many women earn good salaries, and are able to build up extensive savings, which they desire to place in some kind of a real estate investment. They are able to make substantial down payments, and to supply funds regularly to the liquidation of debts they assume. If properly directed, such operations often result in the building up of good sized estates in the course of a few years.

Women probably are a little less discriminating than men as to the kind of real estate they buy, and the sentimental features of the offering sometimes appeal stronger than do its actual investment possibilities. In the larger cities, women are constantly placing their money in cheap building lots in unimproved subdivisions, largely because they do not understand the

character of the burden they are assuming, or the possibilities of increment. They often take too much for granted everything a glib tongued salesman tells them, and are not inclined, or feel they lack the equipment, to ascertain for themselves the actual earnings which a property may be depended to bring them. There are always some classes of real estate salesmen who are more eager to collect commissions than to serve a customer intelligently and faithfully. It is impossible to furnish any buyer with the judgment which must be exercised in making a purchase of real estate. Women must study the fundamental factors of investments in real property, and decide for themselves what they ought to buy, and whether it may be depended upon to furnish the profits which a salesman may claim for it.

In the case of buying a house or a business property of some sort, it is safest to first thoroughly investigate the character of the broker or salesman being dealt with. If he is a certified realtor, the customer will have redress, for she feels that if she has not been fairly treated, she can always appeal to the local real estate board for redress, and she will get it. Probably the number of women who are victimized in real estate is no greater in actual proportion, than the number of men, yet it is a fact that the persuasive salesman with the large brown eyes and the nice curly hair likes to get a demure little woman as a customer, and through the force of his personal attractiveness and magnetism persuade her that he is the one person in the world who can make her rich in real estate.

Beware of the philanderer type.

Buy real estate on the basis of reason, not sentiment.

Frequently widows come into possession of substantial funds from life insurance companies, or by inheritance. They have always heard that real estate is a safe and profitable investment, and they often wonder why some eager salesman has looked them up, and offered them some fine opportunity to make a fortune by investing a few thousand dollars in some real estate proposition which they submit. There are a few real estate men who emulate certain kinds of shyster lawyers, who are known as "ambulance chasers." These men make a practice of following up death announcements in newspapers, notices of wills having been probated, and similar "leads," which bring them to the

doors of the recently afflicted widows who have money at their disposal. To such women the best advice is to consult a thoroughly reliable realtor before spending a cent. Explain your circumstances, submit the proposition, and ask for advice. It will be given freely and honestly if you have picked out the right realtor. If you are uncertain as to whom you should approach, and there is a real estate board, consult the president or secretary of that organization, and you will get honest and competent advice without its costing a penny. Probably the proposition which has been submitted is entirely all right. If so advised, you are at liberty to act. If there seems to be some question as to facts, better pass the golden opportunity by, and deal with someone in whom you can feel full confidence.

Beware of the scheme which offers you something for nothing in real estate. A plan by which many women have been victimized has been worked in connection with the giving away of coupons at the doorways of moving picture shows and other entertainments, which explain that a number of fine lots are going to be given away "absolutely free," and that by signing your name and address to a ticket you may be the lucky winner of a "free" lot. Later an oily mannered salesman appears with the announcement that you have been the successful winner of a lot. Of course, everyone who signed a ticket is called upon. He goes on to explain that the lot itself will cost you "absolutely nothing," but that you will be required to pay the sum of $48 to obtain an abstract to the property, and have the necessary papers regularly recorded. The salesman is rather vague as to the property, which is usually some considerable distance away, and perhaps admits after much questioning that it is only twenty-five by one-hundred feet in size. Many women, seeing an opportunity of becoming the owner of a piece of real estate at small expense, pay the costs demanded of them, and do indeed become the owners in fee simple of small pieces of land. Further investigation usually shows that the lot is far distant from where the owner lives, that it is too small for practical use, and that its actual value is probably only $5 in cash. Cut over timberlands in upper Michigan, which are practically worthless, have been expoited in many cities in the middle west in this manner, and much good money has been spent for worthless land. It is difficult for

real estate boards to stamp out this evil practice for the promoters live up to the letter, if not the spirit, of the law, and do actually convey the land, taking their profits out of the filing fees they collect, and remitting only a dollar or two to the recorder for his trouble. Never try to get something for nothing in real estate. It cannot be done any more in this business than any other.

Women should be cautious about signing their names to papers they do not understand the meaning of. They may become seriously involved. Again the advice is reiterated: Be sure of the party with whom you are dealing, and be satisfied that he is giving you a square deal.

Women are often interested is buying homesites for speculative purposes, and make considerable money through such operations. The same advice offered in Chapter 5 entitled "Vacant Lots As An Investment," applies to women as it does to men. By all means select a competent and honest broker, and you will have the same opportunity to make money as any other client who may be dealing in this class of real estate.

Women find opportunities in the cities throughout the country in leasing houses or apartments for a term of years, furnishing them properly, building up a renting clinentele, and then selling their leases and furniture at a profit. Carried on as a regular business, this often provides good profits to such operators. In California, particularly in Los Angeles, bungalow courts are handled in a similar manner, leases usually being for a term of ten years. The individual units are attractively furnished, and are eagerly sought after by visiting tourists. These "courts" are passing from one investor to another constantly, and many of the operators are women. Even large hotels are handled by more ambitiously inclined women who have acquired the business experience necessary for the promotion of such ventures.

Many women do not understand the rights existing under the law of dower. At the moment a married man takes title to a piece of real estate, his wife immediately becomes possessed of a one-third interest in the property for the period of her lifetime. Likewise, when a married woman assumes ownership of real estate, the husband, by virtue of the same law of dower, becomes a lifetime owner to the extent of a one-third interest. A

woman cannot bequeath a dower interest, as it is simply a life estate, the interest ceasing at the time of her death. Not until her husband dies may she assume actual control of her one-third interest. The life estate created by law covers all of the time the marriage relation is effective, or as the law terms it, coverture. While both husband and wife are living, the wife's interest is termed inchoate dower. Of course, dower interest does not come into actual existence until a husband or wife dies.

Remember these interesting facts in connection with dower:

> 1—A husband can by no act diminish in any way a wife's interest.
>
> 2—A judgment recovered against a husband, followed by a sale by the sheriff of a husband's interests does not affect the wife's dower interest, which remains intact.
>
> 3—A husband cannot give a good deed without a wife joining.
>
> 4—A mortgage given by a husband cannot cut off a wife's dower interest unless she consents to the release of her rights in the property by joining with him in signing the mortgage.

There has been an agitation in recent years to clarify the dower law by extending a wife's life interest into a one-third direct ownership in property acquired by married couples. Ascertain the exact dower laws in operation in the state in which you live.

Some pertinent advice to women who seek to make money in real estate:

> 1—Study the subject of realty investing. Read as many good books on this question as you are able to obtain.
>
> 2—Deal through a reliable realtor. He will save you money in your purchases and sales, and direct your course aright.
>
> 3—In buying or selling a property insist that the deal be put in escrow with a title company. Your rights in the transfer will be zealously guarded by a concern

which works merely for a fee, and is not interested in getting a cent of your money beyond that fee.

4—Avoid opportunities to "get rich quick" in real estate. If the scheme is so wonderful that it offers remarkable opportunities, there may be something wrong with it, and you should know all about it, and secure competent advice concerning it before proceeding with any such transaction.

5—Be satisfied in taking a good profit on a deal. No one ever lost money in taking a profit, and reinvesting funds in another good proposition.

6—Don't be inveigled by some "friend" to go blindly into a transaction without proper advice from a disinterested party competent to advise you.

7—Don't go into a real estate deal without knowing the extent of the obligations you are agreeing to assume. Too many persons are constantly "land poor" without your joining the throng.

8—"I didn't know what I was signing" is no defense in a court of law. Only place your name on a document when you fully understand its import, and then upon the advice of a disinterested person who knows what the document is about.

9—Do not buy real estate without actually seeing it, and knowing what you are becoming the owner of.

10—If your dealings with a broker result in your having full confidence in his judgment and good intentions, patronize him exclusively. Don't shop around from office to office, for you may fall into unfriendly hands.

11—If you get into legal difficulties over a real estate transaction, don't depend upon your friends for advice. Consult a thoroughly responsible lawyer, familiar with real estate operations, who has been properly recommended to you. He will keep you from getting into further trouble, and will probably extricate you from your difficulties.

12—Do not, under any circumstances, assume ownership of property unless it has a thoroughly good title. You may have grave difficulties in disposing of it at a later date.

Have confidence in yourself that you can make money in real estate. It is a fertile field, and there is as much reason for your success as for that of thousands of others who have built up good incomes, or made substantial profits from deals.

CHAPTER 29

THE GOLDEN RULE, THE BASIS OF REAL ESTATE ETHICAL CONDUCT

Vast sums of money involved in real estate transactions—Ethical standard of realtors raised in past few years—Value and necessity of fair dealing emphasized—Irresponsible dealers gradually disappearing—Deal with a certified realtor—Licensing of real estate men becoming general throughout the various states—Ethical code of the National Association of Real Estate Boards—Thirty-five definite rules of conduct.

In no other business are such vast sums of money annually transferred between buyers and sellers as in the real estate business. Despite the importance of this great calling, it has not been until recent years that a standard ethical code for the control of dealers in real estate has been definitely promulgated and adopted.

More has been accomplished in this regard during the last decade than during all preceding time. This has been due to the activities of the National Association of Real Estate Boards, composed of nearly 600 constituent boards located all over the United States and Canada. With a closely knit organization made up of the best minds in the real estate business wonderful strides have been made in lifting the standard of conduct among realtors, which is the term reserved exclusively for members of this great body.

The value and necessity of fair dealing in buying and selling real estate does not even have to be argued. It is self evident, and as far as the person is concerned who is interested in making money in real estate, it is a most fortunate condition of affairs, for it guarantees honest dealing on the part of the great body of men who are engaged in handling the transfer of parcels of Mother Earth.

Irresponsible real estate dealers have been fast disappearing from cities and towns throughout America where real estate boards are being organized and maintained. The best protection anyone can have who is engaged in buying or selling real estate is to deal with a certified realtor. Back of the name

stands the power of the local and national boards, which will see that proper conduct is observed in all transactions. Dealing with persons who are not realtors in a city where a board exists carries with it a definite risk. One might just as willingly deal with a lawyer or doctor who has not been properly certified to engage in his respective calling, and who is not a member of his local bar or medical association.

Licensing of real estate men is now an accomplished fact in over a score of states in this country, and it seems certain that all states eventually will enact and enforce license laws which will admit only those who are competent and reliable into the real estate field.

Volumes might be written about the relations which should exist between the real estate man and his client. After years of patient study and revision a new code of ethics was adopted by the National Association of Real Estate Boards at Washington in June, 1924. This code is so comprehensive, and outlines so definitely the relations which should govern a realtor's action, that it is given herein in full:

Preamble

Underlying all is the land. Upon its wide utilization and widely allocated ownership depend the survival and growth of free institutions and of our civilization. The Realtor is the instrumentality through which the land resource of the nation reaches its highest use and through which land ownership attains its widest distribution. He is the creator of homes, a builder of cities, a developer of industries and productive farms.

Such functions impose obligations beyond those of ordinary commerce; they impose grave social responsibility and a patriotic duty to which the Realtor should dedicate himself, and for which he should be diligent in preparing himself. The Realtor, therefore, is zealous to maintain and improve the standards of his calling and shares with his fellow Realtors a common responsibility for its integrity and honor.

In the interpretation of his obligations, he can take no safer guide than that which has been handed down through twenty centuries, embodied in the Golden Rule:

"Whatsoever ye would that men should do unto you, do ye also unto them."

Accepting this standard as his own, every Realtor pledges himself to observe its spirit in all his dealings and to conduct his business in accordance with the following Code of Ethics, adopted by the National Association of Real Estate Boards.

Part I. Professional Relations

Article 1— In the best interest of society, of his associates, and of his own business, the Realtor should be loyal to the real estate board of his community and active in its work; and he should willingly share with his fellow-members the lessons of his experience.

Article 2—The Realtor should so conduct his business as to avoid controversies with his fellow-Realtors; but in the event of a controversy between Realtors who are members of the same real estate board, such controversy should be submitted for arbitration in accordance with the regulations of their board and not to a suit at law, and the decision in such arbitrations should be accepted as final and binding.

Article 3—Controversies between Realtors who are not members of the same real estate board should be submitted for arbitration to an arbitration board consisting of one arbitrator chosen by each Realtor from a real estate board to which he belongs and of one other member, or a sufficient number of members to make an odd number, selected by the arbitrators thus chosen.

Article 4—When a Realtor is charged with unethical practice, he should voluntarily place all pertinent facts before the proper tribunal of the real estate board of which he is a member, for investigation and judgment.

Article 5—A Realtor should never publicly criticise a competitor; he should never express an opinion of a competitor's transaction unless requested so to do by one of the principals, and his opinion then should be rendered in accordance with strict professional courtesy and integrity.

Article 6—A Realtor should never seek information about a competitor's transaction to use for the purpose of closing the

transaction himself or diverting the customer to another property.

Article 7—When a Realtor accepts a listing from another broker, the agency of the broker who offers the listing should be respected until it has expired and the property has come to the attention of the accepting Realtor from a different source, or until the owner, without solicitation, offers to list with the accepting Realtor; furthermore, such a listing should not be passed on to a third broker without the consent of the listing broker.

Article 8—Negotiations concerning property which is listed with one Realtor exclusively should be carried on with the listing broker, not with the owner.

Article 9—The schedules of fees established by the various real estate boards are believed to represent fair compensation for services rendered in those communities and should be observed by every Realtor.

Article 10—A Realtor should not solicit the services of any employee in the organization of a fellow-Realtor without the knowledge of the employer.

Article 11—No sign should ever be placed on any property by a Realtor without the consent of the owner.

Part II. Relations to Clients

Article 12—In justice to those who place their interests in his hands, the Realtor should endeavor always to be informed regarding the law, proposed legislation, and other essential facts and public policies which affect those interests.

Article 13—In accepting the agency for property, the Realtor pledges himself to be fair to purchaser or tenant, as well as to the owner whom he represents and whose interests he should protect and promote as he would his own.

Article 14—A Realtor should not buy for himself property listed with him, nor should he acquire any interest therein without first making his true position clearly known to the listing owner.

Article 15—When asked for an appraisal of real property or an opinion on a real estate problem, the Realtor should never give an unconsidered answer; his counsel constitutes a professional service which he should render only after having ascer-

tained and weighed the facts, and for which he should make a fair charge.

Article 16—The Realtor should encourage the naming of the actual consideration in a deed.

Article 17—When acting as agent in the management of property, a Realtor should not accept any commission, rebate, or profit on expenditures made for the owner, without his full knowledge and consent.

Article 18—The exclusive listing of property should be urged and practiced by a Realtor as a means of eliminating misunderstanding and dissensions and assuring better service to the owner.

Article 19—The acceptance by a Realtor of an exclusive listing imposes the obligation of rendering skilled and conscientious service; when a Realtor is unable to render such services either himself or with the aid of his fellow-Realtors, he should not accept the listing.

Article 20—Before offering a property listed with him by the owner, it is the Realtor's duty to advise the owner honestly and intelligently regarding its fair market value.

Part III. Relations to Customers and the Public

Article 21—It is the duty of every Realtor to protect the public against fraud, misrepresentation, or unethical practices in connection with real estate transactions.

Article 22—Property should be offered by a Realtor solely on its merits without exaggeration, concealment, or any form of deception, or misleading representation.

Article 23—It is the duty of a Realtor to ascertain all pertinent facts concerning every property for which he accepts the agency, so that in offering the property he may avoid error, exaggeration, and misrepresentation.

Article 24—A Realtor should never offer a property without the authorization of the owner.

Article 25—The price at which a Realtor offers a property should not be higher than that which the owner has openly agreed to take.

Article 26—Before a Realtor buys for a client property in the ownership of which the Realtor has an interest, he should disclose his interest to all parties to the transaction.

Article 27—Before a Realtor sells property in the ownership of which he is interested, he should make it clear to the purchaser that he is acting solely for the owner.

Article 28—A Realtor when acting as a broker should make it clear for which party he is acting, and he should not receive compensation from more than one party except with the full knowledge and consent of all parties to the transaction.

Article 29—Under no circumstances should a Realtor permit any property in his charge to be used for illegal or immoral purposes.

Article 30—In closing transactions, the Realtor should advise the use of legal counsel when the interest of any party to the transactions appears to require it; and in all cases he should exercise care in the preparation of documents so that they shall embody the exact agreements reached.

Article 31—At the time the agreement is reached as to the terms of a transaction the Realtor should fully inform each party regarding commissions and other expenses to which each is respectively liable.

Article 32—Before the closing of a transaction, the Realtor should recommend the examination of title and conveyancing papers.

Article 33—All contracts and agreements to which a Realtor is a party should be made in writing and should be complete and exact.

Article 34—A Realtor should never be instrumental in introducing into a neighborhood a character of property or occupancy, members of any race or nationality, or any individuals whose presence will clearly be detrimental to property values in that neighborhood.

Article 35—No instructions or inducements from any client or customer relieve the Realtor from his responsibility strictly to observe this Code of Ethics.

CHAPTER 30

REAL ESTATE AS A CAREER

An honorable and profitable business—The old time trader, and the present day realtor compared—University courses and Y. M. C. A. and realty board schools on real estate—Business officially recognized by passage of license laws in over a score of states—Am I qualified to serve?—Five qualifications that are necessary—The need for proper preparation before entering the selling or operating field—Real estate attracts an able class of men—Attitude of real estate boards towards the subject of education, and newcomers in the realty field—Business offers a fine future to the competent person—Business no longer a haven for those who are failures in other lines—Big business recognizes the importance of this new type of work—The monuments that real estate men and women leave to posterity.

Recognition of the business of dealing in real estate as a constructive, profitable and honorable calling has become an accomplished fact during the past few years.

Up to 1875 a real estate man, such as we know today, was almost unheard of. True, there were "traders" in real estate, who bought a property or two, selling from time to time, filling in the rest of their time "swapping" their holdings as best they could. They were often not regarded as very solid citizens, were looked at somewhat askance, and classed in about the same business category as horse traders. Maintaining a high grade office for the buying and selling of real estate on a brokerage basis was unheard of, and practically no effort was made to conduct modern high grade subdivision activities as we know them today. A few acres would be cut into building lots, and sold intermittently as the demand appeared. No regular sales campaigns were attempted, and the business was in no way standardized as it is today.

The new light in which the real estate business finds itself is best manifested in the fact that twenty-five leading American universities are now conducting classes in real estate instruction for their students, several of the larger ones having two and three year courses. About 100 real estate boards and Y. M. C. A. educational departments were, in the fall of 1924, conducting real estate classes for periods ranging from twelve to thirty-two weeks or longer in duration.

When it is remembered that real estate is the underlying security in connection with all commercial and industrial activities, it does not seem strange that the business of dealing in it has become an important one, and that attempts to standardize the calling and place it on a high ethical basis have been successful.

Official recognition has been given the business in over a score of states in the union by the passing of license laws which govern the character of the men and women who may deal in real estate. It will be only a matter of a very few years when every state will take similar steps to single out the proper type of persons who shall be legally in charge of this important occupation.

"Am I qualified to serve?" is the question which naturally presents itself to the aspirant who would take up real estate buying and selling as a business. What are the qualifications of one who may enter this business, and expect to make a success of it? A few of these qualifications may be noted as follows:

> 1—Natural intelligence, supplemented with an adequate education, which will permit one to understand and master the problems involved in the many branches which constitute the business as a whole.
>
> 2—A willingness to work hard by applying oneself to study, and then doing capably the things which naturally present themselves. It needs no great genius to succeed in real estate. It does call for real work.
>
> 3—Natural honesty and a disposition to be absolutely fair are requisite. The day when the man of crooked tendencies could succeed in real estate has passed. The world is altogether too small, with its telephone, telegraph, radio, mail, rail and water transportation, for anyone to last long by trying to succeed by living by his "wits." The life of the real estate transgressor is especially hard, and his career is soon nipped in the bud. Dishonesty does not pay in this field to any greater extent than in any other. It is promptly rewarded with what it deserves, and its coming is effective and speedy.

4—To be a successful operator or broker one must have more than a mere working knowledge of business conditions; he must comprehend mathematics; he must know something about legal matters; he must have sales ability; he must be a student of human nature, able to detect the subtle currents of thought which are stirred up incessantly in the buying and selling of real estate.

5—One must especially have an open mind, ready and willing at all times to learn from the experiences of others who have sought and found the solutions to problems which are constantly appearing. The more one finds out about real estate, the more he realizes how little he really knows.

A bricklayer, carpenter or machinist will spend four years learning a trade. Doctors, dentists, and lawyers spend years in preparatory work, yet many persons believe they can go into the real estate "game" as they call it, and start making big commissions or profits in a few weeks or months. This idea, of course, is nonsense. One must qualify for the business, if one intends to follow it as a calling, working up as ability demonstrates itself, and occasions offer advancement.

Incidentally, the real estate business has ceased being a "game." It is an active, serious, scientific, intricate occupation, which brings ample rewards to those who are willing to fit themselves for service. It is attracting a class of men who through education, experience, and an adherence to a high ethical standard are on a par with any other calling in America today.

The field of the real estate operator attracts from time to time some of the ablest men in the professions of the law and engineering, training in each of which is found useful in many ways. Bankers naturally gravitate into real estate operating as a sideline for the investment of their own private funds. Coming so closely in touch with realty activities constantly, they realize the profits which are to be made in operating. Business men in almost every walk of life, who have surplus funds at their command, often become attracted by experience in a single deal, and become confirmed operators from then on. Many realtors who have made a success of their business instead of retiring from the exacting duties of conducting brokerage or subdivision offices

simply remain in an advisory capacity, allowing younger men to bear the brunt of the business battles while they operate in some line of real estate which appeals to them.

Failure to become successful in the real estate business is usually traceable to lack of proper preparation. To anyone who is willing to diligently study the problems which present themselves, following with actual work in the real estate field, plus a willingness to work hard, cannot help but win. Men of very mediocre ability have won substantial success through a determination to apply themselves, and master details.

There seems little doubt that within a few years all of the universities of this country will be offering constructive courses in real estate, and there doubtless will come a day when, in addition to an adequate course in "civics," in which students in high schools will be taught the mysteries of their local governments, and compelled to learn the advantages of their home town, they will be given an elementary course in the acquiring of real estate for home and investment purposes.

There are nearly 600 real estate boards in the United States and Canada. Those operating in the larger cities are all fostering courses in real estate education, either conducting them under their own auspices or in conjunction with Y. M. C. A. educational courses. The men who are responsible for the Y. M. C. A.'s educational work have realized for a number of years that the study of real estate is quite as important as engineering, accounting, and similar branches, which are now a part of the curriculum.

Real estate as a career not only offers an honorable calling to which some of the best business talent of the country is being attracted, but it also offers fine opportunities for the making of money in sums commensurate with the native ability shown in individual operations. Doctors, dentists, lawyers, bankers and merchants often operate their businesses for the purpose largely of accumulating enough money to enter the real estate operating field for investment purposes, where many of them amass fortunes after a few years. Every city in the country has men of this character, some of whom you know, and in most cases envy.

The real estate business is no longer a haven for the failures and derelicts in other lines. There was a time when any man who

was unsuccessful as a merchant, a politician, a teacher, or a minister, entered the real estate business. For a time friends covertly smiled at the effort, and when such a man miserably failed once more, they smiled slyly and exclaimed: "I told you so." Real estate men must be of the caliber that will be successful in any business. It is a sphere in which the opportunities are practically unlimited, providing one proceeds to qualify himself to meet the exacting requirements called for.

That Big Business has come to a recognition in recent years that special training is needed in real estate is evidenced by the fact that nearly every important corporation in this country now has a trained expert real estate man in charge of a separate department, where liberal salaries are paid. No step is taken in connection with a company's realty activities unless the advice of this department is secured. The larger cities of the country, instead of buying and selling real estate holdings through politicians, as in former days, now maintain property departments. The same may be said of school boards in many cities, which annually expend huge sums for new educational projects.

You may lose money in real estate as readily as you make it. If you desire to be thoroughly grounded, you should seek association with some reputable firm where the proper training may be secured. If you wish merely to become an invester and operator in real estate, you naturally should choose some competent broker in whom you have full confidence, and operate through him. If your appendix bothered you, you certainly would not try to cut it out yourself, nor in all probability would you seek advice or treatment from a horse doctor. By the same token, you will meet with little success in trying to invest your money without proper guidance of any kind, or by seeking the assistance of one who may be but little better qualified than yourself to analyze the problems which the investing of funds demands.

When a business or professional man dies, they honor him by erecting a modest granite monument. When a man passes on who has made a signal contribution to science or to his country, they keep his memory green by erecting and properly dedicating a beautiful statue. Yet cities are the monuments which real estate men leave to succeeding generations. Great buildings and beautiful subdivisions are the enduring memorials by which the real estate

operators of this country are remembered after they are gone. They have been engaged in a constructive calling and they pass on well satisfied with their accomplishments.

Real estate does offer a career which cannot be equalled when its scope and importance are considered. It needs men of intelligence, vision and integrity and it is attracting such men to its ranks. Never before has the realtor been held in such high esteem. With the recruiting of new men to the ranks from the colleges of this country within the next decade the general mental and moral level of the men in the real estate business will be on a cultural par with any profession or business occupation in this country.

To be successful, then, in accepting the challenge to take up a career in real estate, there are three things to be kept definitely in mind: Qualify yourself for your high calling; apply yourself diligently to your chosen work, and then direct your operations in a way that will receive the commendation of those best able to judge of your success!

CHAPTER 31

PHENOMENAL PROFITS IN REAL ESTATE

Large profits a familiar story—Derived in large measure from central business property, but not by any means confined to that—Manhattan Island bought from the Indians for $24 in trade goods—Cleveland cost the pioneers forty cents an acre—Examples of profits made in Detroit, Seattle, Atlantic City, Tampa, Birmingham, Los Angeles, Denver and other cities.

Everyone is familiar with stories of remarkable profits made in buying and selling real estate. Some of the stories are almost unbelievable, yet can be substantiated from the records, or from the persons who have reaped the rewards as a result of careful management, plus astonishing increments which come to parcels of real estate properly situated in the line of growth.

Instances of large profits are greatest in mercantile districts of cities where central business property has been acquired, held and improved, and later sold or leased for long terms. Outlying business centers also offer many striking examples of rises in values. Conversion of raw acreage into highly developed home centers has been another profitable way in which large increment has been realized.

Of course, everyone is familiar with the historical fact that Manhattan Island, on which the more important part of New York City now rests, was purchased from the Indians by Peter Minuit for sixty-four guilders, or approximately $24, the purchase price being paid the Indians in beads, hatchets, knives, and similar trinkets. The Western Reserve, comprising three million acres, extending from Ashtabula, Ohio, on the east, Sandusky on the west, and a point ten miles southwest of Youngstown, was purchased by The Connecticut Land Co. from the State of Connecticut in 1796 for the sum of forty cents per acre. In 1924, one acre in the heart of the City of Cleveland was valued at over $3,000,000.

Chicago has seen tremendous increases in value from the time of its founding. In 1842 Edwin Judson bought from Sylvester Willard a small parcel of land 18 feet front by 48 feet deep, now forming part of the Stevens Brothers' store on State Street. In seventy years this property increased in value 43,482%. The original price was $325, and the price in 1924 on a leasing basis of

$30,000 per year, or $600,000 on a five per cent capitalization charge. A corner property at Wilson Ave. and Sheridan Road, terminus of the North Chicago "L" line, was sold in 1855 for $40 per acre, and in 1924 had a leasing value of $9895, an increase of 2000%.

New York City, of course, has seen tremendous advances in real estate values. In 1924, a thirty-foot strip on Fifth Ave. rented at $66 per square foot, two and one-half times the original price of the entire Island of Manhattan.

A Pittsburgh church was donated a site in 1788 by John Penn, the elder, and John Penn, the younger. This site recently went under ninety-nine year lease on a basis of $11,000,000.

Seattle, one of the wonder cities of the Pacific Coast, lists a lot at the corner of Third Ave. and Pike St., which in 1890 sold for $375. It was leased in 1923 at an average valuation of five per cent net on $800,000, an increase in less than thirty-four years of 213,233%.

The northwest corner of Second Ave. and Pike St., Seattle, 60 by 111 feet in size, was sold in 1883 for $1600. In 1922, a long-term ground lease was executed on a basis of four per cent on a valuation of $360,000. The northeast double corner, containing two lots at Second Ave. and Union St., Seattle, having an area of 120x111 feet, sold in 1875 for $250. In 1921 the inside lot sold on a basis of $200,000, and in the same year the corner lot was leased on a basis of six per cent on a valuation of $450,000. The southeast corner of Sixth Ave. and Pike St. was purchased in 1890 for $3600, and in 1922 sold for $90,000. In 1924, the ground, which was 55 by 120 feet in size, had a sale value of $150,000.

The site of Atlantic City, N. J., in 1853 was purchased at $17.50 per acre. It consisted mostly of sand dunes. The frontage on the board walk of Atlantic City today runs into thousands of dollars per foot front. A whole city block on Atlantic Ave. was bought in 1894 for $650. Two years later it sold for $21,000, and in 1898 it was sold for $63,000. The present value of the block, a beautiful residential square, is enormous.

Tampa, Florida, has had tremendous increases in property values. A corner lot at Franklin and Estelle Streets was purchased in 1903 for $2750, and was sold in 1921 for $20,000, and later again transferred at a greatly increased price.

An interesting indication of the way property values grow is

indicated in the experience of "Bill" Weiseiner, of the White Stone, L. I. Fire Department, retired after twenty years of service, who conceived the idea of buying old houses, rehabilitating them, and selling them. He started with $200 about 1905, and in 1924 owned a large apartment house, 150 building lots, and had something like $200,000 to go on, all of which was made in real estate investments.

Birmingham, Alabama, steel center of the south, also lists some tremendous increases. In December, 1923, Dr. J. C. Lester of that city purchased the northeast corner of Fourth Ave. and Twenty-third St. for $55,000 from the Lyon's Estate. Four months later he sold the property for $125,000, a profit of $70,000. During the year 1900, Henry B. Gray of Birmingham purchased the northeast corner of Second Ave. and Nineteenth St., which was improved with a four-story building, 25 by 100 feet. In 1919 the property was purchased by Richard W. Massey for $240,000, or a profit of $215,000 more than the same property sold for twenty-five years previously. Mr. Massey refused to sell the corner for $400,000. In 1922, the Burger-Phillips Dry Goods Co. of Birmingham purchased the northeast corner of Fourth Ave. and Twentieth Street, a plot of ground 150 feet by 140 feet in size, on which were some cheap one and two story brick buildings, for $650,000. One year later the concern received a bona fide offer of $900,000 for the property, but refused to sell.

Los Angeles, wonder city of the United States, when its tremendous growth is considered, has seen many phenomenal increases in real estate values. In the twenty years ending in 1923 the average advance in property values in Los Angeles is said to have been forty per cent per annum. The assessed valuation of unimproved property in 1903 was $98,711,727, which increased in 1923 to $881,220,995, or over 800% for the period, or 40% per year.

The corner lot at Seventh and Broadway, Los Angeles, where Loew's State Theater now stands, which was sold in 1833 for $3500, was in 1924 reported worth $1,250,000. Harold L. Arnold's corner at Seventh Ave. and Figueroa St., purchased in 1871 for $1,000, was sold in 1920 for $449,000, nearly 1000% annual increase. In the spring of 1855, Noyes & Field, auctioneers, sold a lot on the west side of Broadway, Los Angeles, between Seventh and Eighth Streets, for $3,000. The same lot sold in 1913 for $360,000, and in 1924 was regarded as being worth double that sum.

The site of Cleveland, Ohio, purchased in connection with the sale of the Western Reserve territory to The Connecticut Land Co. in 1796 cost forty cents per acre. In the early days of Cleveland land was practically given away as an inducement for settlers to remain. The site of Hotel Cleveland on the Public Square was sold by Sam Huntington to Mowry Pliny for $100 in 1815, there being a frontage of 60 feet on Superior Ave., and a depth of 330 feet on the Public Square. In 1920 an annual rental on a long term lease of $90,000 was agreed upon. In 1812 a tract of land fronting on Euclid Ave., near what is now Fourteenth St., and containing eighteen acres, was sold for $2 to pay delinquent taxes. In 1924, this property was worth $15,000 per foot, 200 feet deep. About 1860, Wilson Dodge paid $2500 for a ten-acre tract of land on Euclid Ave., near E. 17th St., extending northwest. This land is now occupied by four theaters, and a twenty-story office building, and is valued at about $15,000 per foot front. Fifty cents was the original cost per acre of the acre and a quarter of land now occupied by the National City Bank and the Guardian Bank building at Euclid Ave. and E. 6th St., Cleveland. This land is now on the tax duplicate at nearly $3,000,000, and is worth about $17,500 per foot front.

An astonishing increase in the value of residential land is noted in connection with the Village of Shaker Heights, a surburb of Cleveland. The land within what is now Shaker Heights Village in 1900 was appraised for taxation at $240,000. The appraisal was made on a sixty per cent basis, which would indicate a total valuation at that time of $400,000. In 1924, the same land was appraised for taxation at $29,282,320, an increase of 7200% over twenty-three years, or more than 300% every year, for the entire period. It is doubtful if there is another district in the world which has made such phenomenal increases in such a short length of time. This property is intensively developed with very high grade homes and is highly restricted for residential use until 1999.

Detroit, the world's leading center in the manufacture of automobiles, has seen many rapid advances in values in the past few years. One piece of Woodward Ave. property, now renting for $42,500 per year, was inherited by the present owner on a valuation of about $40,000, which sum is under the present annual rental being received.

In 1917, Walter S. Darden, realtor, of Detroit, formed a corporation which purchased property at the northeast corner of Six Mile Road and Mount Elliott Ave., consisting of ten acres of land, the consideration paid being $37,000. Within six months it was sold to The Peninsular Milled Screw Co. for $57,000. Six months later the company refused $85,000 for the property. Mr. Darden's company about the same time purchased twenty acres from Walter Flanders on the south side of the Detroit Terminal Railway, bordering Grinnell Ave., between Van Dyke Ave. and French Road, the consideration being $74,000, with a cash payment of $20,000. Six months later one-half of this property was sold to The American Blower Corporation for $55,000, and six months after that time the remaining ten acres was sold for $100,000.

Another interesting transaction Mr. Darden was associated with took place in 1914, when a ninety-nine year lease was taken on the northeast corner of Baltimore and Woodward Avenues, Detroit, there being a frontage of 92 feet on Woodward Ave., with a depth of 150 feet on Baltimore Ave. The lease called for payments of $12,000 per year for the first ten years, $15,000 per year for the next forty years, $20,000 per year for the next fifteen years, and $22,000 per year for the remaining 34 years of the ninety-nine year lease. Two and one-half years later, S. S. Kresge offered a $150,000 cash bonus for the lease, was refused, but a deal was finally made on a basis of Mr. Kresge paying $24,000 per year for the remainder of the ten year period, $27,000 per year for the forty year period, and the balance of the forty-nine year period at the same rate the original lease called for.

Denver, Colorado, has many examples of tremendous increases in real estate values. One striking example is at the corner of Seventeenth and Curtis Streets, where a tract of land was donated to Amos Steck by the Town Council of Denver in 1860. In 1888, Judge Steck made what he considered a fine bargain, when he sold the property to F. P. Ernst and W. H. Cranner, two Texas cattlemen, for $60,000. In 1914, Horace W. Bennett purchased the Ernst interest in the property, Cranner retaining his interest. In 1918, the building underwent extensive remodeling operations, and in 1924, the land was valued at $400,000, and the building at $200,000. Thus, the property that was a gift in 1860, and which sold at $60,000 in 1888, increased in value to $400,000 in 1924.

Another interesting increase in value in Denver is represented in a thirty-two lot block occupied by the Araphoe County Court House, of which Denver is the county seat. The property was donated by the Town Council of Denver to the Catholic Diocese in 1860, and in 1875 was sold to the County Commissioners for $16,000. In 1924, the value of this property was conservatively placed at $1,250,000.

New Orleans, Louisiana, one of America's principal ports, shows many phenomenal increases in land values. The property at 829 Canal St., having a frontage of 22 feet, and a depth of 116 feet, was purchased in 1916 by Mr. Schumberg for $140,000. After holding the property seven years, and receiving a very handsome revenue on the basis of the purchase price, he sold it on May 5, 1923, for $290,000, showing an enhancement of about 105%, in addition to having received a very fine income on his purchase price. About 1918, The Standard Oil Co. purchased the corner of Carondelet and Perdido St., New Orleans, having a frontage of 150 feet on Carondelet St., by 95 feet on Perdido St., for which the sum of $120,000 was paid. The company intended to erect an office building, but changed its mind, and in 1920 sold the property to John Liuzza for $220,000. Mr. Liuzza, after holding the property eleven months, sold it to The Western Union Telegraph Co. for $305,000, netting a profit in less than one year of 35%. Another New Orleans property which has shown a big increase is located at 124 Baronne St. This property is 42 feet front and 135 feet deep, and was purchased in November, 1922, by Gus Mayer, a merchant. He held it for six months and one day, and sold it at a price which gave him a net profit of $50,000, or an enhancement at the rate of about 40% per year, in addition to paying a handsome revenue during the period of his ownership.

Spokane, Washington, now a city of about 120,000 population, measures its existence in a period of fifty-one years. The records show that the land on which the business district of Spokane is now located was bought as a relinquishment in 1873 for the price of $1500. This land comprises approximately 160 acres, and is now used as the city's retail business district. It was said to be worth in 1924 in excess of $25,000,000, and the improvements thereon worth another $25,000,000.

CHAPTER 32

WHAT FAMOUS MEN HAVE SAID CONCERNING REAL ESTATE

Marshall Field said it was the only way of becoming wealthy—John Jacob Astor advised investors to buy land near a growing city—The ideas of Henry George—Theodore Roosevelt pointed to it as the basis of wealth—Others who have interesting comments to make are Grover Cleveland, W. J. Bryan, Calvin Coolidge, Warren G. Harding, Henry Ward Beecher, Andrew Carnegie, Russell Sage, Hetty Green, Gladstone, Herbert Hoover, Abraham Lincoln, Benjamin Franklin, Arthur Brisbane, and Roger W. Babson.

Real estate as an investment has been favorably commented on since the earliest ages.

Consider what noted men have said:

Marshall Field:

"Buying real estate is not only the best way, the quickest way, and the safest way, but the only way to become wealthy."

John Jacob Astor:

"Buy land near a growing city."

Ralph Waldo Emerson:

"The first farmer was the first man, and all historic nobility rests on possession and use of land."

Henry George:

"So far as we can see with any certainty, the quality of value has longer and more constantly attached to the ownership of land than to any other valuable thing. Everywhere, in all time, among all peoples, the possession of land is the base of aristocracy, the foundation of great fortunes, the source of power."

Adam Smith (Economist):

"Land is a fund of a more stable and permanent nature: and the rent of public lands, accordingly, has been the principal source of the public revenue of many a great nation that was much advanced beyond the shepherd state."

Theodore Roosevelt:

"Every person who invests in well selected real estate in a growing section of a prosperous community adopts the surest and safest method of becoming independent, for real estate is the basis of wealth."

Grover Cleveland:

"No investment on earth is so safe, so sure, so certain to enrich its owner as undeveloped realty. I always advise my friends to place their savings in realty near some growing city. There is no such savings bank anywhere."

William Jennings Bryan:

"Real estate is the best investment for small savings. More money is made from the rise in real estate values than from all other causes combined. To speculate in stocks is risky and even dangerous, but when you buy real estate you are buying an inheritance."

Calvin Coolidge:

"The ownership of a home, the feeling of independence that comes with the possession of a bit of the earth are among the most powerful incentives to high civic interest and usefulness."

Warren G. Harding:

"Believing that nothing can do more toward the development of the highest attributes of good citizenship than the ownership by every family of its own home, I am always glad to endorse effective efforts to encourage home ownership. Nothing better could happen to the United States than a very notable increase in the ownership of homes."

Henry Ward Beecher:

"There is a distinct joy in owning a piece of land unlike that which you have in money, in houses, in books, in pictures, or anything else which men have devised. Personal property brings you into society with men. But land is a part of God's estate in the globe; and when a parcel of ground is deeded to you, and you walk over it, and call it your own, it seems as if you had come into partnership with the original proprietor of the earth."

Col. H. Oswald:

"An acre of ground can't run away; it can't burn up or down; it can't be stolen and hidden away out of sight; it represents the most solid, substantial and permanent investment possible. Most of the great historic fortunes are based on land. Never did fairy godmother with limitless power pluck diamonds and gold out of the thin air, bestow on her prime favorite such riches as have followed early investments in real estate in a good, productive country. Investors, with our present rate of increase of population, how long will there remain any good, cheap lands in this country? Our lands are sure to advance in price very rapidly. The wise man is he who puts every spare dollar into good, cheap land. Land does not explode; farms are not carried away by panic; trusts cannot get a corner on the earth. And yet it is the source of all wealth."

Andrew Carnegie:

"Ninety per cent of all millionaires become so through owning real estate. More money has been made in real estate than in all industrial investments combined. The wise young man or wage earner of today invests his money in real estate."

Russell Sage:

"Real estate is an imperishable asset, ever increasing in value. It is the most solid security that human ingenuity has devised. It is the basis of all security, and about the only indestructible security."

Hetty Green:

"I advise women to invest in real estate. It is the collateral to be preferred above all others, and the safest means of investing money."

Puelicher; Gladstone:

"There are so many elements of respectability that come to him who finds permanent shelter for his loved ones. It is a force for law, since a home owner desires protection by law. He acquires respect for the property of others. He wants good sound government and desires to become an advocate of law and order. Ownership makes him vigilant. I think it was Gladstone

who said: 'Property always sleeps with one eye open,'" said John H. Puelicher, president of the American Bankers' Association.

Herbert Hoover:

"The present large proportion of families that own their homes is both the foundation of a sound economic and social system and a guarantee that our society will continue to develop rationally as changing conditions demand. A family that owns its own home takes a pride in it, maintains it better, gets more pleasure out of it, and has a more wholesome, healthful, and happy atmosphere in which to bring up children. The home owner has a constructive aim in life. He works harder outside his home; he spends his leisure more profitably, and he and his family live a finer life and enjoy more of the comforts and cultivating influences of our modern civilization. A husband and wife who own their own homes are more apt to save. They have an interest in the advancement of a social system that permits the individual to store up the fruits of his labor. As direct taxpayers they take a more active part in local government. Above all, the love of home is one of the finest instincts and the greatest of inspirations of our people."

Abraham Lincoln:

"Let him not, who is homeless, pull down the house of another man, but let him work diligently and build one for himself. Property is the fruit of labor, property is desirable; it is a positive good in the world. That some should be rich shows that others may become rich, and hence is just encouragement to industry and enterprise. Let not him who is houseless pull down the house of another, but let him labor diligently and build one for himself, thus by example showing that his own shall be safe from violence when built."

Benjamin Franklin:

"There are croakers in every country, always boding its ruin. Such a one lived in Philadelphia; a person of note, an elderly man with a wise look and a very grave manner of speaking; his name was Samuel Mickle. This gentleman, a stranger to me, stopped one day at my door and asked me if I was the

young man who had lately opened a new printing house. Being answered in the affirmative, he said he was sorry for me, because it was an expensive undertaking, and the expense would be lost; for Philadelphia was a sinking place, the people already half bankrupts or near being so; all appearances to the contrary, such as new buildings and the rise of rents, being to his certain knowledge fallacious, for they were, in fact, among the things that would soon ruin us. And he gave me such a detail of misfortunes now existing, or that were soon to exist, that he left me half melancholy. Had I known this before I engaged in business, probably I never should have done it. This man continued to live in this decaying place, and to disclaim in the same strain, refusing for many years to buy a house there, because all was going to destruction, and at last I had the pleasure of seeing him give five times as much for one as he might have bought it for when he first began his croaking."

Arthur Brisbane:

"When a man owns his own home he is SOMEBODY. Until he DOES own his house he is only somebody else's TENANT, a useful, cash-producing personage, but a different being from the man that OWNS his own home," wrote Arthur Brisbane recently. "Civilization as we know it began when the man OWNED HIS OWN HOUSE, LIVED IN IT, STAYED IN ONE PLACE, DEVELOPED IT, AND FOUGHT FOR HIS RIGHT TO KEEP ALL OTHERS OUT OF IT. OWN YOUR OWN HOME, watch it grow in value, get YOUR SHARE of that much discussed 'unearned increment,' which means the increased value of land caused by rising population. Living away from the center of the city in a house with light on all sides gives a one hundred per cent better chance to your children. It means changing YOUR outlook upon life; it means making you one of those that ACTUALLY OWN PART OF THE UNITED STATES. It means INDEPENDENCE. Buy your house, get it PAID for as quickly as you can, above all buy what you know you CAN pay for, and have the satisfaction of seeing what you own grow in value, and the infinitely greater satisfaction of leaving your wife and children, when you must leave them, WITH A ROOF OVER THEIR HEADS THAT THEY ACTUALLY OWN."

Roger W. Babson:

"Real estate is about the last thing to rise in price during a period of general prosperity, and it also is about the last thing to decline during a period of depression. Therefore, real estate is always worthy of consideration as an investment.

Francis H. Sisson:

"Only as we move out of the more speculative stages of our tremendous industrial expansion and transportation developments will we begin to appreciate the value of real estate and its securities for the safe and profitable employment of money."

William Stanley Jevons (Author):

"Some one will say that he is beyond question rich, who owns a great deal of land."

ADDENDA

MEASUREMENTS IN GENERAL USE

7.92 inches make 1 link.
25 links make 1 rod.
16.50 feet make 1 rod.
4 rods make 1 chain.
10 chains make 1 furlong.
8 furlongs make 1 mile.
320 rods make 1 mile.
5,280 feet make 1 mile.
10 square chains make 1 acre.
160 square rods make 1 acre.
640 acres make 1 square mile.
43,560 square feet make 1 acre.
60 geographical miles make 1 degree.
1,728 cubic inches make 1 cubic foot.
27 cubic feet make 1 cubic yard.
Gunter's chain, 22 yards of 100 links.
A section is 640 acres.
A township is 36 sections, each 1 square mile.
A span is 9 inches.
A hand—horse measurement—is 4 inches.
A knot—nautical—is 6,086 feet.
A fathom—nautical—is 6 feet.
A stone is 14 pounds.
A square acre is 208 7-10 feet on each side.

CONTENTS OF FIELDS AND LOTS

220 feet by 198	feet of land equals 1	acre.
440 feet by 99	feet of land equals 1	acre.
110 feet by 396	feet of land equals 1	acre.
60 feet by 726	feet of land equals 1	acre.
120 feet by 363	feet of land equals 1	acre.
240 feet by 181 1-2	feet of land equals 1	acre.
200 feet by 108 9-10	feet of land equals 1-2	acre.
100 feet by 145 2-10	feet of land equals 1-3	acre.

There are 12 city lots, 25 x 100 feet, in an acre with the street cut through; 17 424-1000 city lots, 25 x 100 feet, in an acre without the street cut through.

MEASURES

Surface or Square Measure—144 square inches equal 1 square foot; 9 square feet 1 square yard; 30¼ square yards 1 measure 20 feet on each side and you will have about a square rod; 40 square rods 1 square rood; 4 square roods 1 acre; 640 acres 1 square mile; 4,840 square yards 1 acre.

WEIGHTS AND MEASURES

Troy Weight

24 grains = 1 pwt.
20 pwt. = 1 ounce.
12 ounces = 1 pound.
Used for weighing gold, silver and jewels.

Apothecaries' Weight.

20 grains = 1 scruple.
3 scruples = 1 dram.
8 drams = 1 ounce.
12 ounces = 1 pound.

Avoirdupois Weight.

27 11-32 grains = 1 dram.
16 drams = 1 ounce.
16 ounces = 1 pound.
25 pounds = 1 quarter.
4 quarters = 1 cwt.
2,000 lbs. = 1 short ton.
2,240 lbs. = 1 long ton.

Dry Measure.

2 pints = 1 quart.
8 quarts = 1 peck.
4 pecks = 1 bushel.
36 bushels = 1 chaldron.

Liquid Measure.

4 gills = 1 pint.
2 pints = 1 quart.
4 quarts = 1 gallon.
31½ gallons = 1 barrel.
2 barrels = 1 hogshead.

Long Measure.

12 inches = 1 foot.
3 feet = 1 yard.
5½ yards = 1 rod.
40 rods = 1 furlong.
8 furlongs = 1 stat. mile.
3 miles = 1 league.

Mariners' Measure.

6 feet = 1 fathom.
120 fathoms = 1 cable length.
7½ cable lengths = 1 mile.
5,280 feet = 1 stat. mile.
6,085 feet = 1 naut. mile.

Surveyors' Measure.

7.92 inches = 1 link.
25 links = 1 rod.
4 rods = 1 chain.
10 square chains or 160 square rods = 1 acre.
640 acres = 1 sq. mile.
36 sq. miles (6 miles square) 1 township.

Cubic Measure.

1728 cubic in. = 1 cu. ft.
27 cubic ft. = 1 cubic yd.
128 cu. ft. = 1 cord (wood).
40 cu. ft. = 1 ton (ship'g)
2,150,42 cu. in. = 1 standard bushel.
231 cu. in. = 1 standard gallon.
1 cu. ft. = about four-fifths of a bu.

METRIC EQUIVALENTS.

Linear Measure.

1 centimeter = 0.3937 in.
1 in. = 2.54 centimeters.
1 decimeter = 3.937 in. = 0.328 feet.
1 ft. = 3.048 decimeters.
1 meter = 39.37 in. = 1.0936 yards.
1 yard = 0.9144 meter.
1 dekameter = 1.9884 rods.
1 rod = 0.5029 dekameter.
1 kilometer = 0.62137 mile.
1 mile = 1.6093 kilometers.

Square Measure.

1 sq. centimeter = 0.1550 sq. in.
1 sq. nch = 6.452 square centimeters.
1 sq. decimeter = 0.1076 sq. ft.
1 sq. ft. = 9.2903 square decimeters.
1 sq. meter = 1.196 sq. yd.
1 sq. yd. = 0.8361 sq. meter.
1 are. = 3.954 sq. rods.
1 sq. rod = 0.2529 are.
1 hektar = 2.47 acres.
1 acre = 0.4047 hektar.
1 sq. kilometer = 0.386 sq. m.
1 sq. mile = 2.59 square kilometer.

Measure of Volume.

1 cu. centimer = 0.061 cu. in.
1 cu. inch = 16.39 cu. centimers.
1 cu. decimeter = 0.0353 cu. ft.
1 cu. foot = 28.317 cu. decimeters.
1 cu. m'r = 1.308 cu. yd.
1 ster = 0.2759 cd.
1 cu. yd. = 0.7646 cu. meter
1 cord = 3.624 sters.
1 liter = 0.908 qt. dry.
1.0567 qt. liq.
1 qt. dry = 1.101 liters.
1 qt. liq. = 0.9463 liter.
1 dekaliter = 2.6417 gal.
.135 pecks.
1 gal. = 0.3785 dekaliter.
1 peck = 0.881 dekaliter.
1 hektoliter = 2.8375 bush.
1 bu. = 0.3524 hektoliter.

Weights.

1 gram = 0.03527 ounce.
1 ounce = 28.35 grams.
1 kilogram = 2.2046 lbs.
1 lb. = 0.4536 kilogram.
1 metric ton = 1.1023 English ton
1 English ton = 0.9072 metric ton.

Approximate Metric Equivalents.

1 decimeter = 4 inches.
1 liter = 1.06 qt. liquid.
0.9 qt. dry.
1 meter = 1.1 yards.
1 kelometer = ⅝ of mile.
1 hektoliter = 2⅝ bu.
1 hektar = 2½ acres.
1 kilogram = 2 1-5 lbs.
1 ster. or cu. meter = ¼ of a cord.
1 metric ton = 2200 lbs.

TABLE FOR COLLECTING RENTS

To use the table, multiply the total rental per month by the figure opposite the number of days due. If the rental is less than $100.00 per month, only the first four figures of the decimals need be used.

Days	Month of 31 days	Month of 30 days	Month of 29 days	Month of 28 days
1	.032258	.033333	.034483	.035714
2	.064516	.066666	.068966	.071428
3	.096774	.100000	.103449	.107142
4	.129032	.133333	.137932	.142856
5	.161290	.166666	.172415	.178570
6	.193548	.200000	.206898	.214284
7	.225806	.233333	.241381	.250000
8	.258064	.266666	.275864	.285714
9	.290322	.300000	.310347	.321428
10	.322580	.333333	.344830	.357142
11	.354838	.366666	.379313	.392856
12	.387096	.400000	.413796	.428570
13	.419354	.433333	.448279	.464284
14	.451612	.466666	.482762	.500000
15	.483870	.500000	.517245	.535714
16	.516128	.533333	.551728	.571428
17	.548386	.566666	.586211	.607142
18	.580644	.600000	.620694	.642856
19	.612902	.633333	.655177	.678570
20	.645160	.666666	.689660	.714284
21	.677418	.700000	.724143	.750000
22	.709676	.733333	.758626	.785714
23	.741934	.766666	.793109	.821428
24	.774192	.800000	.827592	.857142
25	.806450	.833333	.862075	.892856
26	.838708	.866666	.896558	.928570
27	.870966	.900000	.931041	.964284
28	.903224	.933333	.965524	1.00
29	.935482	.966666	1.00	....
30	.967740	1.00	....	....
31	1.00	....	....	....

PAYING FOR A HOME ON MONTHLY PAYMENTS

This Table shows in the first column homes ranging from $1,500 to $5,000 in value. To the right are given the monthly payments due when it is desired to pay for it over periods ranging from five to ten years.

Value of House	Amount per Month to pay Principal and Interest in 5 Years	Amount per Month to pay Principal and Interest in 6 Years	Amount per Month to pay Principal and Interest in 7 Years	Amount per Month to pay Principal and Interest in 8 Years	Amount per Month to pay Principal and Interest in 9 Years	Amount per Month to pay Principal and Interest in 10 Years
1,500.00	28.75	24.58	21.61	19.37	17.64	16.25
1,600.00	30.67	26.22	23.05	20.67	18.81	17.33
1,700.00	32.58	27.86	24.49	21.96	19.99	18.42
1,800.00	34.50	29.50	25.93	23.25	21.17	19.50
1,900.00	36.42	31.14	27.37	24.54	22.34	20.58
2,000.00	38.33	32.78	28.81	25.83	23.52	21.67
2,100.00	40.25	34.42	30.25	27.12	24.69	22.75
2,200.00	42.17	36.06	31.69	28.42	25.87	23.83
2,300.00	44.08	37.69	33.13	29.71	27.05	24.92
2,400.00	46.00	39.33	34.57	31.00	28.22	26.00
2,500.00	47.92	40.97	36.01	32.29	29.40	27.08
2,600.00	49.83	42.61	37.45	33.58	30.57	28.17
2,700.00	51.75	44.25	38.89	34.87	31.75	29.25
2,800.00	53.67	45.89	40.33	36.17	32.93	30.33
2,900.00	55.58	47.53	41.77	37.46	34.10	31.42
3,000.00	57.50	49.17	43.21	38.75	35.28	32.50
3,100.00	59.42	50.81	44.66	40.04	36.45	33.58
3,200.00	61.33	52.44	46.10	41.33	37.63	34.67
3,300.00	63.25	54.08	47.54	42.62	38.80	35.75
3,400.00	65.17	55.72	48.98	43.92	39.98	36.83
3,500.00	67.08	57.36	50.42	45.21	41.16	37.92
3,600.00	69.00	59.00	51.86	46.50	42.33	39.00
3,700.00	70.92	60.64	53.30	47.79	43.51	40.08
3,800.00	72.83	62.28	54.74	49.08	44.68	41.17
3,900.00	74.75	63.92	56.18	50.37	45.86	42.25
4,000.00	76.67	65.56	57.62	51.66	47.04	43.33
4,100.00	78.58	67.19	59.06	52.96	48.21	44.42
4,200.00	80.50	68.83	60.50	54.25	49.39	45.50
4,300.00	82.42	70.47	61.94	55.54	50.56	46.58
4,400.00	84.33	72.11	63.38	56.83	51.74	47.67
4,500.00	86.25	73.75	64.82	58.12	52.92	48.75
4,600.00	88.17	75.39	66.26	59.41	54.09	49.83
4,700.00	90.08	77.03	67.70	60.71	55.27	50.92
4,800.00	92.00	78.67	69.14	62.00	56.44	52.00
4,900.00	93.92	80.30	70.58	63.29	57.62	53.08
5,000.00	95.83	81.94	72.02	64.58	58.80	54.17

PERCENTAGE OF HOME OWNERS

Ownership of Homes in Cities in the United States having a population of over 300,000 *in* 1920.

City	Rented	Per Cent of All Homes		
		Owned	Owned Free	Mortgaged
New York	87.3	12.7	2.7	10.0
Chicago	73.0	27.0	9.8	17.2
Philadelphia	60.5	39.5	11.8	27.7
Detroit	61.7	38.3	14.9	23.4
Cleveland	64.9	35.1	14.4	20.7
St. Louis	76.2	23.8	13.1	10.7
Boston	81.5	18.5	6.3	12.3
Baltimore	53.7	46.3	24.9	21.4
Los Angeles	65.3	34.7	18.3	16.4
Pittsburgh	71.7	28.3	15.2	13.1
San Francisco	72.6	27.4	16.3	11.1
Buffalo	61.4	38.6	15.1	23.5
Milwaukee	64.5	35.5	14.4	21.1
Washington, D. C.	69.7	30.3	13.5	16.8
Newark	79.8	20.2	5.5	14.7
Cincinnati	70.3	28.7	16.3	12.4
New Orleans	76.9	23.1	16.1	6.9
Minneapolis	59.1	40.9	18.6	22.3
Kansas City, Mo.	65.3	34.7	12.8	22.0
Seattle	53.7	46.3	22.9	23.5
Indianapolis	65.5	34.5	14.8	19.7

RATIO OF AVERAGE DEBT ON HOMES

Average value, debt and ratio of debt to value of mortgaged homes in cities over 300,000 *in the United States together with an average rate of interest paid in* 1920.

	Average value of the mortgaged home	Average debt on each of mortgaged home	Ratio of average debt to value	Average annual rate of interest
New York	9,008	4,340	48.2	5.6
Chicago	6,459	2,734	42.3	5.9
Philadelphia	5,032	2,593	51.5	5.9
Detroit	7,595	3,119	41.1	6.0
Cleveland	6,495	2,525	38.8	6.2
St. Louis	4,921	2,249	45.7	5.9
Boston	6,880	3,166	46.0	5.8
Baltimore	3,556	1,431	40.0	6.0
Los Angeles	5,588	2,223	39.7	6.9
Pittsburgh	6,793	2,820	41.5	5.9
San Francisco	5,735	2,468	43.0	6.1
Buffalo	6,210	2,647	42.6	5.6
Milwaukee	5,390	2,411	44.7	5.3
Washington, D. C	7,114	3,297	46.3	5.9
Newark	7,996	3,746	46.8	5.8
Cincinnati	5,051	2,215	43.8	6.0
New Orleans	5,170	2,209	42.7	7.2
Minneapolis	5,175	1,981	38.2	6.1
Kansas City, Mo.	5,260	2,690	51.1	6.1
Seattle	3,570	1,670	46.7	7.0
Indianapolis	4,286	1,792	41.8	6.2

BUILDERS' TABLE OF BRICK REQUIRED

Allowing 7 Brick to Superficial Square Foot.)

Square feet on wall surface	Number of Bricks required in a					
	Wall 4 inches thick	Wall 8 inches thick	Wall 12 inches thick	Wall 16 inches thick	Wall 20 inches thick	Wall 24 inches thick
1	7	15	23	30	38	45
2	15	30	45	60	75	90
3	23	45	68	90	113	135
4	30	60	90	120	150	180
5	38	75	113	150	188	225
6	45	90	135	180	225	270
7	53	105	158	210	263	315
8	60	120	180	240	300	360
9	68	135	203	270	338	405
10	75	150	225	300	375	450
20	150	300	450	600	750	900
30	225	450	675	900	1,125	1,350
40	300	600	900	1,200	1,500	1,800
50	375	750	1,125	1,500	1,875	2,250
60	450	900	1,350	1,800	2,250	2,700
70	525	1,050	1,575	2,100	2,625	3,150
80	600	1,200	1,800	2,400	3,000	3,600
90	675	1,350	2,025	2,700	3,375	4,050
100	750	1,500	2,250	3,000	3,750	4,500
200	1,500	3,000	4,500	6,000	7,500	9,000
300	2,250	4,500	6,750	9,000	11,250	13,500
400	3,000	6,000	9,000	12,000	15,000	18,000
500	3,750	7,500	11,250	15,000	18,750	22,500
600	4,500	9,000	13,500	18,000	22,500	27,000
700	5,250	10,500	15,750	21,000	26,250	31,500
800	6,000	12,000	18,000	24,000	30,000	36,000
900	6,750	13,500	20,250	27,000	33,750	40,500
1,000	7,500	15,000	22,500	30,000	37,500	45,000

WHAT IT COSTS TO RENT

The following table shows what your rent has amounted to at 7 per cent compounded semi-annually:

Per Month	10 years	15 years	20 years
$30.00	$ 5089.66	$ 9291.09	$15217.75
35.00	5938.73	10840.76	17755.55
40.00	6787.12	12389.44	20292.07
45.00	7635.51	13938.13	22828.57
50.00	8483.93	15486.83	25365.11
60.00	10195.81	18605.51	30468.20
65.00	11029.10	20132.36	32973.92
75.00	12725.85	23230.18	38047.59

HOW RENT PILES UP

Monthly rent	Amount you pay in 10 years	Amount you pay in 20 years	Amount you pay in 30 years
$20	$2400	$4800	$7200
25	3000	6000	9000
30	3600	7200	10800
35	4200	8400	12600
50	6000	12000	18000

REPAYING A $2,000 LOAN

Original Loan, $2,000. Payments, $30 per month. Interest at 6%. Interest adjusted every 6 months.

Year	Total Amt. Paid Each Year	Amt. of Yearly Payment Which Goes as Interest	Amt. Yearly Payment Applied on Principal	Amt. You Still Owe on the Principal
1st year............	$360.00	$116.40	$243.60	$1,756.40
2nd year............	360.00	101.56	258.44	1,497.96
3rd year............	360.00	85.83	274.17	1,223.79
4th year............	360.00	69.13	290.87	932.92
5th year............	360.00	51.41	308.59	624.33
6th year............	360.00	32.62	327.38	296.95
11 mo............	309.01	12.06	296.95	None

Paid in 6 years and 11 months.

STATEMENT OF ESCROW

(Here is a typical escrow statement as rendered by an escrow department of a title insurance company. One is the statement given to the grantor, or seller, and the other goes to the grantee, or buyer.)

STATEMENT FOR GRANTOR

July 22, 1924.		Escrow No. 20103.
John Doe (Grantor)		
Peter Smith (Grantee)		
Sale Price		$20,150.00
Down Payment	$ 500.00	
Balance of 1st mtg. assumed by grantee. (The Blank Trust Co.)	9,200.00	
2nd mtg. to grantor	4,200.00	
Value of unearned fire ins. premium—Royal Ins. Co. Policy No. 5260 for 3 yr. 14,000 Premium $84.00—expires June 1, 1925. Date recorded deed July 22, 1924 to June 1, 1925		20.90
Taxes and assessments last ½ 1923	124.60	
Refund to grantee of pro-rata part 1924 taxes and assessments on 1923 basis. Jan. 1, 1924 to July 22, 1924	139.09	
Refund to grantee of interest on 1st mtg. from date of last payment to date recording deed June 15, 1924 to July 22, 1924. 6% $9200.00	56.71	
Commission in full to The Cleveland Co.	837.50	
New certificate of title	35.00	
Half escrow fee	12.50	
Preparing deed	3.00	
Recording of 2nd mtg.	1.65	
Revenue stamps on deed	11.00	
Balance due John Doe	5,049.85	
	$20,170.90	$20,170.90

STATEMENT OF ESCROW

(Note that all of the various additions and deductions account for the distribution of all money involved in a typical deal, even to the preparation of papers, and the recording of the deed at the court house.)

STATEMENT FOR GRANTEE

July 22, 1924. Escrow No. 20103.

Peter Smith (Grantee)		
John Doe (Grantor)		
Purchase Price	$20,150.00	
Down Payment		$ 500.00
Balance 1st mtg. assumed held by The Blank Trust Co.		9,200.00
2nd mtg. to grantor		4,200.00
Deposit in escrow		6,250.00
Value of unearned fire insurance premiums on Royal Ins. Co. Policy 5260—3 year policy—Preimum $84.00—date recording deeds July 22, 1924 to June 1, 1925	20.90	
Refund of pro-rata part 1924 taxes and assessments—date recording deed on 1923 basis Jan. 1, 1924 to July 22, 1924		139.09
Refund of interest on 1st mtg. from date last payment June 15, 1924 to July 22, 1924		56.71
Half escrow fee	12.50	
Recording of deed	1.00	
Preparing 2nd mtg. and note	3.00	
Balance due Peter Smith	158.40	
	$20,345.80	$20,345.80

OFFER TO PURCHASE

Cleveland, Ohio..............................19....

RECEIVED of..(Purchaser)

....Dollars ($................)
on account of purchase of certain real estate, together with appurtenances thereto, known as.....

....

(City of)
in the (Village of)..Cuyahoga County, Ohio

having a frontage of........................feet on the..............................side

of..............................and a depth of......................................feet

more or less, this day by him agreed to be purchased at a price of..........................

....Dollars ($..............)

Balance, in addition to above mentioned earnest money, to be paid as follows:................

....

....
(land contract)
upon delivery of a properly executed (warranty deed) with dower rights released, together with a new statement of Title or Title Insurance Policy showing the Seller to have a good title to the property free and clear of encumbrances, except restrictions of record and such other exceptions as are noted herein. All interest on mortgages, rentals, water rentals, insurance and other charges, except taxes and assessments, shall be pro-rated as of the date of acceptance of this offer. The

Seller agrees to pay all taxes and assessments (both General and Special) for the................

half of the year 192...... due and payable in................192...., and the Purchaser all

thereafter. Date of possession shall be...

Time is of the essence of this contract. Within ten days of final acceptance of this offer all papers and consideration, necessary for closing of the transaction as stated herein are to be placed in escrow with The Guarantee Title & Trust Company.

Each party shall pay one-half the cost of such escrow.

When this offer is accepted by the Seller and approved by The Stanley McMichael Organization, it shall constitute a contract for the purchase and sale of said property upon these terms;

if not accepted and approved, the deposit of $.......................shall be returned to the Purchaser, without any liability upon the part of The Stanley McMichael Organization to either

party. This offer expires by limitation at noon on......................................

REMARKS...

....

.... *Purchaser*

.... *Address*

....

....

The undersigned accepts the above offer, agrees to make conveyance, recognizes The Stanley McMichael Organization as his agent in this transaction and agrees to pay it the present Cleveland Real Estate Board commission on the purchase price.

THE STANLEY McMICHAEL ORGANIZATION,
Agent.

By............................Salesman

Approved..............................

.... *Seller*

.... *Date* .... *Address*

STATUTES OF LIMITATIONS

States and Territories	Interest Laws		Statutes of Limitations		
	Legal Rate Per Ct.	Rate Allowed by Contract Per Ct.	Judgments, Years	Notes, Years	Open Accounts, Years
Alabama	8	8	20	6	3
Alaska	8	12	10	6	6
Arkansas	6 to 10	6 to 10	10	5	3
Arizona	6	10	4	4	3
California	7	Any rate	5	4	4
Colorado	8	Any rate	20	6	6
Connecticut	6	6	(*k*)	6	6
Delaware	6	6	10 (*h*)	6	3
Dist. of Col	6	10	12	3	3
Florida	8	10	20	5	3
Georgia	7	8	7	6	4
Hawaii	8	12	20	6	6
Idaho	7	12	6	5	4
Illinois	5	7	7	10	5
Indiana	6	8	20	10	6
Iowa	6	8	(*d*)	10	5
Kansas	6	10	5	5	3
Kentucky	6	6	15	15	5
Louisiana	5	8	10	5	3
Maine	6	Any rate	6–20	6–20	6
Maryland	6	6	12	3	3
Mass	6	Any rate	6 (*c*)	6	6
Michigan	5	7	10	6	6
Minnesota	6	10	10	6	6
Mississippi	6	8	7	6	3
Missouri	6	8	10	10	5
Montana	8	12	10	8	5
Nebraska	7	10	5	5	4
Nevada	12	12	6	6	4
New Hampshire	6	6	20	6	6
New Jersey	6	6	20	6	6
New Mexico	6	12	7	6	4
New York	6	6††	20 (*f*)	6	6
North Carolina	6	6	10	3*	3
North Dakota	6	10	10	6	6
Ohio	6	8	21	15	6
Oklahoma	6	10	5	5	3
Oregon	6	10	10	6	6
Pa	6	6	5 (*f*)	6‡	6
Porto Rico	6	12 (*e*)	5	3	3
Rhode Island	6†	Any rate	20	6	6
South Carolina	7	7	10	6	6
South Dakota	7	12	20	6	6
Tennessee	6	6	10	6	6
Texas	6	10	10	4	2–4
Utah	8	12	8	6	4
Vermont	6	(*m*)	6	6 (*n*)	6
Virginia	6	6	20	5*	3
Washington	6	12	6	6	3
West Virginia	6	6	10	10	5
Wisconsin	6	10	20 (*b*)	6	6
Wyoming	8	12	10	10	8

TABLE No. 1
TO VALUE DEEP LOTS

The table below, known as the Cleveland Standard, in which is adapted a number of existing methods, may be used to determine the percentage of value in lots of varying depth. Assuming the land to be worth $100 per foot front, 100 feet deep, it may be seen that a lot 200 feet in depth is worth $122 per foo tfront for that depth. Any value and depth may be secured. See example under Table II.

PERCENTAGE OF UNIT VALUE FOR LOTS FROM 1 TO 700 FEET DEEP
100 feet depth—100%

Depth									
		50	72.50	100	100.00	150	115.00	200	122.00
1 ft.	3.10%	1	73.25	1	100.41	1	115.19	1	122.00
2	6.10	2	74.00	2	100.85	2	115.38	2	122.20
3	9.00	3	74.75	3	101.27	3	115.57	3	122.30
4	11.75	4	75.50	4	101.70	4	115.76	4	122.40
5	14.35	5	76.20	5	102.08	5	115.95	5	122.50
6	16.75	6	76.90	6	102.48	6	116.12	210	122.95
7	19.05	7	77.55	7	102.88	7	116.29	15	123.38
8	21.20	8	78.20	8	103.25	8	116.46	20	123.80
9	23.20	9	78.85	9	103.62	9	116.62	30	124.60
10	25.00	60	79.50	110	104.00	160	116.80	240	125.35
1	26.70	1	80.11	1	104.36	1	116.96	50	126.05
2	28.36	2	80.77	2	104.72	2	117.13	60	126.75
3	29.99	3	81.38	3	105.08	3	117.30	70	127.40
4	31.61	4	82.00	4	105.43	4	117.47	80	128.05
5	33.22	5	82.61	5	105.78	5	117.64	90	128.65
6	34.92	6	83.21	6	106.13	6	117.79	300	129.25
7	36.41	7	83.82	7	106.47	7	117.94	10	129.80
8	37.97	8	84.42	8	106.81	8	118.09	20	130.35
9	39.50	9	85.01	9	107.15	9	118.24	30	130.90
20	41.00	70	85.60	120	107.50	170	118.40	340	131.40
1	42.50	1	86.15	1	107.80	1	118.54	50	131.90
2	43.96	2	86.70	2	108.11	1	118.70	60	132.40
3	45.30	3	87.24	3	108.43	3	118.85	70	132.85
4	46.61	4	87.78	4	108.75	4	119.00	80	133.30
5	47.90	5	88.30	5	109.05	5	119.14	90	133.75
6	49.17	6	88.82	6	109.35	6	119.28	400	134.20
7	50.40	7	89.35	7	109.65	7	119.41	10	134.60
8	51.61	8	89.87	8	109.93	8	119.54	20	135.00
9	52.81	9	90.39	9	110.21	9	119.67	30	135.40
30	54.00	80	90.90	130	110.50	180	119.80	440	135.80
1	55.05	1	91.39	1	110.76	1	119.92	50	136.15
2	56.10	2	91.89	2	111.02	2	120.05	60	136.50
3	57.15	3	92.38	3	111.28	3	120.18	70	136.85
4	58.20	4	92.86	4	111.55	4	120.31	80	137.20
5	59.20	5	93.33	5	111.80	5	120.43	90	137.55
6	60.30	6	93.80	6	112.05	6	120.55	500	137.85
7	61.25	7	94.27	7	112.28	7	120.66	10	138.15
8	62.20	8	94.73	8	112.52	8	120.77	20	138.45
9	63.10	9	95.17	9	112.76	9	120.88	30	138.75
40	64.00	90	95.60	140	113.00	190	121.00	540	139.05
1	64.95	1	96.04	1	113.20	1	121.10	50	139.30
2	65.90	2	96.50	2	113.43	2	121.21	60	139.55
3	66.75	3	96.95	3	113.64	3	121.32	70	139.80
4	67.60	4	97.40	4	113.85	4	121.43	80	140.05
5	68.45	5	97.85	5	114.05	5	121.53	600	140.55
6	69.30	6	98.30	6	114.25	6	121.62	20	140.95
7	70.10	7	98.74	7	114.45	7	121.71	40	141.35
8	70.90	8	99.17	8	114.64	8	121.80	60	141.75
9	71.70	9	99.58	9	114.82	9	121.90	80	142.05
50	72.50	100	100.00	150	115.00	200	122.00	700	142.35

TABLE II
CORNER LOT PERCENTAGE TABLE
(Zangerle Curve)

Showing method of calculating increased value of a lot located on corner of business street, thru such corner influence. Does not necessarily apply to strictly residential property.

(For Depth of Side Street which is the Frontage on the Main Street.)

Feet	%	Feet	%	Feet	%	Feet	%	Feet	%
5	15	25	46	45	60.7	65	67	85	70.5
10	25	30	51	50	63	70	68	90	71
15	33	35	55	55	64.5	75	69	95	71.5
20	40	40	58	60	66	80	70	100	72

Example—illustrating the above table: Lot 50 ft. on high valued street ($1000 per front foot) by 100 ft. on side street ($300 per front foot.)

Main Street: 50 ft. front x $1000 x 100—$50,000 front value.

(100% from Table I, 100 ft. depth.)

PLUS CORNER INFLUENCE

Side Street: 100 ft. front x $300 x 63% = 18,900

(63% from Table II-50 ft. depth)

$68,900 Lot Value.

Note: Corner Influence may be considered only 100 ft. back from Main Street. Any excess in depth must be added, but at flat side street frontage price only. For example, if above lot had been 120 ft. on side street, the excess of 20 ft. would be valued at 20 ft. x $300 x 72.5%—$4,350, added to above lot value = $73,250. (72.5% from Table I-50 ft. depth).

EXAMPLE—ILLUSTRATING TABLE I.
(On opposite page).

Lot = 80 ft. x 150 ft.
Unit Value = $50.
From Table, 150 ft. depth equals 115% of unit value.
80 ft. x $50 x 115% = $4600—value of lot.

CONTRACT TO PURCHASE

(This is a form devised by a prominent title company. It can be used where no broker is involved in a transaction.)

Dated at........................19...

The undersigned hereby offers and agrees to buy the following described property, together with all hereditaments and appurtenances thereunto belonglong, subject to all legal highways:...
....
....
....
....
....
....
....
....
....
for the sum of.....................................$...............
upon the following terms and conditions:

$............... cash upon the acceptance of this offer.
$............... cash upon the transfer of the title.
$............... by the assumption of a first mortgage.
$............... by the assumption of a second mortgage.

All window shades, window and door screens, storm doors, awnings, electric fixtures, bath room fixtures and...
....
....
are considered as fixtures and shall pass with the title to said premises.

Interest on mortgages, insurance and rents shall be pro rated as of the date of filing the deed for record. All taxes and assessments shall be pro rated according to the calendar year as of the date of filing the deed for record.

Possession of the premises to be delivered on or before.................
....

The owner shall deliver a Warranty Deed with all dower rights released, which deed shall convey said premises free and clear of all incumbrances, except building restrictions, if any, (not containing forfeiture or reversionary clause), the above mentioned assumed mortgages, and taxes and assessments for..........
....

The owner shall furnish a (*) new Statement of Title, Extension of Statement of Title, Full Abstract, Title Insurance Policy for $................... covering the filing for record of the above mentioned deed and mortgages. The evidence of title to show the title good in...................................., free and clear of all incumbrances, except as above.

All papers and funds pertaining to this conveyance are to be placed in escrow with The......................................Co. ...... days after the acceptance of this offer; each party to pay one-half of the escrow fee.

....

....

The undersigned accepts the above offer and agrees to all of the conditions stated above, acknowledges receipt of $........... applied toward the purchase price, and agrees to pay to..................................the sum of $........... commission for sale of said property.

....

*Indicate the kind of evidence of title desired by eliminating all but one.

WARRANTY DEED

(This is a typical form such as is used in the State of Ohio. From a stationery form or book store in your own or adjoining city you can secure copies of the proper forms to use in your territory.)

Know all Men by these Presents, That I, Mary Smith (married)....................

....

....

....the grantor for the consideration of Ten and 00-100 Dollars and other valuable considerations ($10.00, etc.) received to my full satisfaction of Anna Miller, the grantee, do give, grant, bargain, sell and convey unto the said grantee, her heirs and assigns, the following described premises:

Situated in the City of Cleveland, County of Cuyahoga and State of Ohio and known as being Sublot No. 55 in Brooks and Johnson's Subdivision of part of Brooklyn Township Lots Nos. 1 and 2, as shown by recorded plat in Volume 3 of Maps, Page 60 of Cuyahoga County Records.

....

....

be the same more or less, but subject to all legal highways.

TO HAVE AND TO HOLD the above granted and bargained premises, with the appurtenances thereof, unto the said grantee, her heirs and assigns forever. And I, the said grantor do for myself and my heirs, executors and administrators, covenant with the said grantee......her heirs and assigns, that at and until the ensealing of these presents I am well seized of the above described premises, as a good and indefeasible estate in FEE SIMPLE, and have good right to bargain and sell the same in manner and form as above written and that the same are free from all incumbrances whatsoever, except restrictions of record, if any, taxes and assessments, both special and general, for the year 1924, which the grantee herein assumes and agrees to pay.
and that I will **Warrant and Defend** said premises, with the appurtenances thereunto belonging, to the said grantee.., her heirs and assigns, against all lawful claims and demands whatsoever except as above. And I, John Smith, husband of said Mary Smith, do hereby remise, release, and forever quit-claim, unto the said grantee her heirs and assigns, all my right and title of dower in the above described premises.

In Witness Whereof, We have hereunto set our hands the 30th day of July in the year of our Lord one thousand nine hundred and twenty-four.

Signed and acknowledged in presence of

....

....

(Signatures here) (Signatures here)

STATE OF OHIO, } ss:
Cuyahoga County.

Before me, a Notary Public, in and for said county, personally appeared the above named Mary Smith and John Smith, who acknowledged that they did sign the foregoing instrument, and that the same is their free act and deed.

In Testimony Whereof, I have hereunto set my hand and official seal at Cleveland, Ohio this 30th day of July A. D. 1924.

....

....

Notary Public.

MORTGAGE DEED

(Type of mortgage deed used in Ohio. Accompanying such a mortgage should always go a note, securing in proper form the amount of money involved.)

Know all Men by these Presents, That We, Anna Miller and George Miller (wife and husband)..
....
....
....the grantors
for the consideration of Five Thousand and 00-000...............................dollars, ($5000.00) received to our full satisfaction of Mary Smith..................................
....the grantee......, do give, grant, bargain, sell and convey unto the said grantee...., her heirs and assigns the following described premises:

Situated in the City of Cleveland, County of Cuyahoga and State of Ohio and known as being Sublot No. 55 in Brooks and Johnson's Subdivision of part of Brooklyn Township Lots Nos. 1 and 2, as shown by the recorded plat in Volume 3 of Maps, Page 60 of Cuyahoga County Records.
....
....
be the same more or less, but subject to all legal highways.

TO HAVE AND TO HOLD the above granted and bargained premises, with the appurtenances thereunto belonging, unto the said grantee.... her heirs and assigns forever. And We, the said grantors do for ourselves and our heirs, executors and administrators, covenant with the said grantee...., her heirs and assigns, that at and until the ensealing of these presents we are well seized of the above described premises, as a good and indefeasible estate in FEE SIMPLE, and have good right to bargain and sell the same in manner and form as above written, and that the same are free from all incumbrances whatsoever, except first mortgage to The Society for Savings for $2000.00.

....

....

and that we will Warrant and Defend said premises, with the appurtenances thereunto belonging to the said grantee...., her heirs and assigns forever, against all lawful claims and demands whatsoever, except as above.

And we, Anna Miller and George Miller..
....
....
....
do hereby remise, release and forever quit-claim, unto the said grantee...., her heirs and assigns all our right and title of dower in the above described premises.

The Condition of this Deed is Such, That whereas the said Anna Miller and George Miller have executed and delivered to the said Mary Smith, their certain joint and several promissory note of even date herewith for $5000.00, with interest at the rate of six per cent per annum, computed quarterly, principal and interest payable in monthly installments of not less than $50.00 each, the first of said installments to be due and payable September 1, 1924, and continuing thereafter monthly until the entire amount is fully paid. Said installments to be applied quarterly on the first days of September, December, March and June of each year, first to the payment of the interest and the balance to the reduction of the principal.

Upon default, over thirty days, in the payment of any of said installments, the total amount of said obligation shall become due and payable at the option of its holder and shall bear interest at the rate of eight per cent until paid.

Now if the said Anna Miller and George Miller, their..................................
....
....
....
heirs, assigns, executors or administrators, shall well and truly pay the aforesaid promissory note according to the tenor thereof, to the said Mary Smith, her...............................
....heirs and assigns, then the above deed shall be void; otherwise the same shall remain in full force and virtue in law.

Said Grantors agree.... to pay all taxes which may be assessed upon the said land, premises or property, or upon the mortgagee's interest therein without regard to any law heretofore enacted, or hereafter to be enacted, imposing payment of the whole or any part thereof upon the mortgagee Upon violation of this undertaking, or the passage by the State of a law imposing payment of the whole or any portion of any of the taxes aforesaid upon the mortgagee; or upon the rendering by any Court of competent jurisdiction of a decision that the undertaking by the mortgagor as herein provided to pay any tax or taxes is legally inoperative, then and in any such event the debt hereby secured, without any deduction, shall, at the option of the mortgagee become immediately due and collectible, notwithstanding anything contained in this mortgage or any law hereafter enacted. The Grantors agree.... to keep the buildings erected on, or to be erected on said real estate insured against loss by fire in companies approved by said Grantee...., in a sum not less than $5000.00, with loss by terms of policies, made payable to Grantee...., as her interest may appear.

The Grantors agree.... that upon failure to pay the taxes and assessments, or maintain the insurance, as above stipulated, the Grantee.... may pay or effect the same, and all sums so expended shall be immediately paid by said Grantors, and unless so paid, be deemed part of the money secured hereby and shall bear interest at the rate of eight per centum per annum; and whereas;

The Grantors further agree....that thirty days after default in the payment of any sum of money [either principal, interest, insurance, money, taxes, assessments (including all taxes or special assessments which may be levied or assessed on the interest of the Grantee....)] at the time when the same become due, then the whole amount of said principal sum shall, at the option of the Grantee...., be deemed to have become due and payable at once without further notice, and the same, together with all sums of money which may be paid by said Grantee...., with interest thereon, as above stipulated, shall thereupon be collectible, in a suit at law, or by foreclosure of this Mortgage, in the same manner as if the whole of said principal sum had been made payable at the time when any such failure in any payment shall occur. (In case the mortgagee elects under this paragraph to advance insurance premiums or taxes of any kind or nature, the receipt of an official of the insurance company in which such insurance is placed shall, with respect to any such insurance premiums, be conclusive evidence as between the parties to this mortgage of the amount and the fact of payment thereof; and the receipt of the proper public official shall, with respect to the taxes, be conclusive evidence as between the parties to this mortgage, of the amount and validity, and the fact of payment thereof). All reference to Grantee....herein shall include heirs or assigns or successors in interest.

In Witness Whereof, We have hereunto set our hands the 30th day of July in the year of our Lord one thousand nine hundred and twenty-four.

Signed and acknowledged in presence of	....
....	....
....	....
(Signatures here)	(Signatures here)

STATE OF OHIO }
Cuyahoga County. } ss.

Before me, a Notary Public in and for said county, personally appeared the above named

....

....

Anna Miller and George Miller who acknowledge that they did sign the foregoing instrument, and that the same is their free act and deed.

In Testimony Whereof, I have hereunto set my hand and official seal, at Cleveland, Ohio, this 30th day of July A. D. 1924.

....

....

Notary Public.

MORTGAGE NOTE

(*This is an excellent type of mortgage note, such as may be used in the State of Ohio. Use the generally accepted form in your own state.*)

$5000.00

Cleveland, Ohio, July 30, 1924.

For Value Received, we jointly and severally promise to pay to the order of Mary Smith the sum of.......................
FIVE THOUSAND AND 00-100...................DOLLARS, with interest at the rate of six per cent per annum, computed quarterly, principal, and interest payable in monthly installments of not less than FIFTY DOLLARS ($50.00) each, the first of said installments to be due and payable September 1, 1924, and continuing thereafter monthly until the entire amount is fully paid. Said installments to be applied quarterly on the first days of September, December, March and June of each year, first to the payment of the interest and the balance to the reduction of the principal.

Upon default, over thirty days, in the payment of any of said installments, the total amount of this obligation shall become due and payable at the option of its holder and shall bear interest at the rate of eight per cent until paid.

This note is secured by mortgage on Sublot No. 55 in Brooks and Johnson's Subdivision, as recorded in Volume 3 of Maps, Page 60 of..............County Records.

....

....

A TYPICAL APPLICATION BLANK FOR A REAL ESTATE LOAN

..............................19....

Name of borrower....................Age.....Wife Husband.....................Age.......
Occupation..
Location..Lot Size.............
Amount $......................@........%......for..........yrs. (......% of Loan payable semi-annually).................................

DESCRIPTION OF BUILDING

Size........Foundation........Building........Roof......Stories.......Year Built........
Rooms..........1st Floor..........2nd Floor..........3rd Floor..........Baths..........
Toilets..........Cost of Building...............Cellar Size...........................
Condition of Interior........................Condition of Exterior....................
Heat.......................Plumbing....................Garage.....................
Elevator........................No. Stores ....No. Suites.................
Electric Light..................Gas.................Interior Finish................
....
....
Property bought in...................for $...................Cash $...............
Trade $..................................Mortgage $..............................
Improvements made since..Cost $...............
Owners Value Land $..............Tax Valuation Year..............Land $...............
Owners Value Bldg. $..............Tax Valuation Year..............Bldg. $...............
Total $.............. Total $...............
First Mortgage of $...........@......% due.................held by....................
Second Mortgage of $.........@......% due.................held by....................
Unpaid Taxes..............................Life Insurance............................

Schedule of Rents			Annual Expenses	
.................at $	....	$.........	Taxes..................	$.........
.................at $	....	$.........	Insurance..................	$.........
.................at $	....	$.........	Water Rent..................	$.........
.................at $	....	$.........	Gas and Electric..................	$.........
.................at $	....	$.........	Coal..................	$.........
.................at $	....	$.........	Janitor..................	$.........
.................at $	....	$.........	Repairs and Misc..................	$.........
$	....	$.........	Total..................	$.........

Fire Insurance $...............Annual Rental $.................Net...................
For what purpose is loan desired?..
Will 2nd Mortgage be applied for?...
Has any labor been performed on or material furnished during last 60 days?................
....
Are you a member of any co-partnership?.......................................
Is there any land contract outstanding?.......................................
Is there a common driveway or an easement?.....................................

A. D. FRASER
411 Guardian Bldg.
SIR:—

You are hereby authorized to procure for me a loan of....................................
..................................Dollars ($...............) according to the terms and conditions as above stated.

If within..........................days after date you shall secure the approval of said loan, I agree to execute the necessary papers within 10 days after notice of the approval of said loan, furnish the evidence of title required by the lender showing their mortgage to be a first lien with the exception of the present mortgages which are to be discharged or waived when this loan is closed, and to pay you for services rendered in that behalf the sum of.................
....Dollars ($.................); also to pay notarial fees and for recording mortgage, and the appraiser's fees of $................
It is understood and agreed that the first payment of interest, becoming due under the notes and mortgage given to secure the loan herein mentioned, shall be computed from the date of the check or draft sent by the mortgagee for settlement of the loan.

....
.... Address...............................
Witness Telephone Number..........................

SYNDICATE AGREEMENT

(This is an interesting type of syndicate agreement used by a group of investors who have taken over a ninety-nine year lease. It can be easily adapted to a sale in fee simple.)

This Agreement entered into as of Oct. 1, 1924, by and between the undersigned, witnesseth:

Whereas, Richard Roe has deeded to The Union Trust Company the following described property:

(Give careful legal description of premises here.)

And Whereas, The Jones and Smith Company has agreed to enter into a ninety-nine (99) year lease on said premises, which lease shall run to a corporation to be hereafter formed by the undersigned, which corporation shall be known as The State Realty Company, and,

Whereas, The undersigned are desirous of becoming stockholders in said Company and have contributed the sums set opposite their names in payment for stock in said company, to-wit:

John Doe	$15,000.
Wm. L. Smith	$15,000.
John R. Brown	$15,000.
Geo. M. Kerr	$15,000.
Charles C. Keys	$15,000.

And Whereas, it is the intention of the undersigned as stockholders of said Company to cause the Company to construct a building upon the premises leased to it by Richard Roe, which building shall have a value of not less than One-Hundred-Fifty Thousand Dollars ($150,000), and,

Whereas, it may become necessary from time to time for the undersigned as stockholders of said Company to advance money to said Company for the purpose of completing construction, paying taxes and assessments, insurance, water rents, repairs and other items including rent provided under the lease, for the purpose of carrying on this property and operating the same, and for the purpose of meeting the obligations of the Company from time to time as they accrue, now therefor,

In Consideration of the mutual promises herein contained, each of the undersigned agrees with each of the others as follows:

That the capital stock of The State Realty Company, now owned or hereafter acquired by him shall be charged with the following obligations of the undersigned:

1. Each of the undersigned agrees to pay into the Treasury of The State Realty Company, as a loan to said Company, his proportionate share in accordance with the terms of this agreement, of all payments required to meet the installments of rent under the lease from Richard Roe to The State Realty Company as the same becomes due, and the various charges for insurance, taxes, building construction, and other expenses necessary to maintain and keep said lease in full force and effect. Each of the undersigned further agrees to deposit his proportionate share of any securities which may be necessary to meet the obligations of said lease.

2. John Doe and William Smith shall act as Agents of The State Realty Company for the purpose of operating the leased property, and in the management of the premises, the collection of rents therefrom, the making of repairs, the paying of taxes and insurance thereon, the paying of all other expenses in connection with the management and operation of the property and further in connection with the consummation of all details concerning the purchase, the lease or sublease and sale of all or any part of the property. Said managers shall have authority to rent the buildings on the property for whatever consideration they think reasonable, and shall have the right to make any repairs and incur any expenses in connection with the management of the property or the operation thereof, which in their judgment may be necessary. All expenses incurred by the managers including taxes, insurance, interest and principal payments upon any loans obtained by the Company, rentals or other obligations under the lease shall be paid from the income derived from said property and the operation thereof, so long as any funds from such source are available, and in case such funds are insufficient, they shall notify the undersigned stockholders of the proportion due from each and the undersigned stockholders agree forthwith to forward sufficient funds to meet the deficiency.

Said managers shall have authority to borrow money for the purpose of carrying on and managing the property, pledging as security for such loan the property, but in no case shall they be entitled to pledge the personal credit of the stockholders of the Company. The Managers shall receive as compensation for their services ten per cent (10%) of whatever profit is derived from the property when, if and as said property is disposed of, either by sale or lease at a profit, such compensation to be deducted from the sale price of the property after all expenses have been paid and the full purchase price, plus pro-rata expenses, if any, paid by the stockholders, has been returned to them.

3. Each of the undersigned agrees to abide by the decisions of the majority in interest of the undersigned on all questions of assessments against the undersigned for the purpose of meeting the installments of rent under said lease and the various charges for insurance, taxes, building construction and other expenses necessary to maintain and keep said lease in full force and effect and for the purpose of operating the property, and with reference to security to be deposited in order to meet the obligations of said lease. The will of the majority in interest of the undersgined may be expressed either in writing, signed by a majority in interest or by vote at a meeting of which each of the undersigned shall have at least one day's notice, or shall have waived in writing notice of such a meeting. At such meeting any of the undersigned may be represented by proxy.

4. Each of the undersigned agrees that in case he fails to make such payments or assessment and or to deposit such securities referred to above, within thirty (30) days after demand made upon him for such payment or for such deposit on security by said agents, the other undersigned may cure such default contributing equally thereto and being subrogated to the interest of the undersigned in default.

5. The undersigned shall have a first and paramount lien upon all of the capital stock of The State Realty Company held by the undersigned for the liabilities and engagements of each of the undersigned hereunder and such liens shall extend to all dividends declared on such shares. After thirty (30) days default by any of the undersigned hereunder, as hereinbefore provided, the agents at the option of the undersigned not in default, may either (1) enforce by suit or other proceedings the obligations imposed upon the undersigned in default, together with interest at eight per cent (8%) per annum for the time of such default or (2) on ten (10) days' notice by mail or publication, may sell the shares of the undersigned so in default at public or private sale with the right on the part of the agents or any of the undersigned to become purchasers thereof and after paying all expenses incident to such sale, the net proceeds thereof shall be applied in or towards satisfying all such defaults, and the residue, if any, paid to the undersigned in default or to his executors, administrators and assigns.

6. Certificates for all such shares of stock held by the undersigned shall contain a notice to the effect that they are held subject to the terms of this Agreement and such certificates shall be deposited with.., as Trustees, indorsed in blank, and each of the undersigned hereby constitutes such Trustees, from time to time, to act as his true and lawful attorney, irrevocable to transfer the certificates of stock represented thereby, owned by him, on the books of The State Realty Company for the purpose of making any sale or transfer provided for hereunder.

7. In case any of the undersigned, for any reason, desires to sell or dispose in any manner of any or of all of said stock otherwise than by will or gift, he shall first offer it to the other undersigned, their executors, administrators or assigns at the price at which he is willing to sell said stock. Such offer shall be in writing and filed with the managers, who shall forthwith give written notice of such offer to all of the undersigned and shall call a meeting to consider such offer. Each of the undersigned, his executors, administrators and assigns shall be entitled to participate in the purchase of such stock in proportion to his stockholdings in said Company, and the purchase right of any of the undersigned not desiring to participate in the purchase of such stock shall be apportioned among the undersigned in proportion to their interests or in such proportion as they may agree. In case the undersigned or any of them do not accept such offer in writing within fifteen (15) days after the same is filed with the managers, the undersigned desiring to sell may dispose of such stock to any person whomsoever at not less than the price named in said offer filed with the managers, subject, however, to the terms of this agreement by which the assignee shall be bound, but he shall not sell to other than the undersigned at a lower price without first offering it at such lower price to the undersigned by a new written offer filed as aforesaid. In the event of the disposal of all or any part of the capital stock of The State Realty Company by any of the undersigned to any person, other than the remaining undersigned, then the undersigned so disposing of such stock shall remain liable as surety for the performance by the transferee of the obligations hereof.

8. In the absence of any action by the undersigned fixing the amount of assessments as specified in section 3 hereof, the managers of The State Realty Company in the management of the leased premises shall have power to make calls for assessments for amounts needed to pay rentals, taxes, ordinary repairs, insurance, operating expenses and other expenses not to exceed six (6) months in advance. All assessments so collected shall be deposited in the name of The State Realty Company. The Managers may with the written consent of the majority in interest of the undersigned, commence suit in their own names for the collection of any assessments made by them as aforesaid; but no assessments for unusual repairs or construction of buildings and no call for deposit of securities shall be made except by authority of the majority in interest hereunder or by the order of an executive committee hereafter to be appointed by the undersigned.

9. The majority in interest of the undersigned for the purpose of this Agreement shall be determined by the number of shares of the capital stock owned by each in The State Realty Company. Likewise the proposed obligation of each of the undersigned shall be determined by the amount of such stock held by each of the undersigned.

10. This Agreement shall be binding upon and inure to the benefits of the executors and administrators of each of the undersigned and to any person to whom the rights of any of the undersigned, and the stock held by any of the undersigned are transferred in accordance with the terms hereof, but nothing in this Agreement shall constitute the managers partners with each other or of any of the stockholders partners with the syndicate managers or with each other.

The proportion by which each of the undersigned holds his interest is as follows:

John Doe............................One-fifth.
Wm. L. Smith........................One-fifth.
John R. Brown.......................One-fifth.
Geo. M. Kerr........................One-fifth.
Charles C. Keys.....................One-fifth.

In Witness Whereof the undersigned have hereunto affixed their signatures as of the day and year first above written.

(Signed) JOHN DOE.
(Signed) WM. L. SMITH.
(Signed) JOHN R. BROWN.
(Signed) GEO. M. KERR.
(Signed) CHARLES C. KEYS